

## Rating Advisory December 12, 2018 | Mumbai

### **IKF Technologies Limited**

#### **Advisory as on December 12, 2018**

This rating advisory is provided in relation to the rating of IKF Technologies Limited

The key rating sensitivity factors for the rating include:

- Working capital management
- Capital expenditure (capex) plans and their funding
- Scale of operations and profitability
- Advances to/ investments in sister concerns or subsidiaries

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from IKF Technologies Limited (IKF) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If IKF continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

#### **About The Company**

IKF based in Kolkata (West Bengal) was incorporated in 2000 as IKF Software.com Ltd to carry on the software development business and provide IT-enabled services. The company got its present name in 2001 following the initial public offering in 2001. In 2008, it got Internet Service Provider Category 'A' license from the Department of Telecom, Government of India to provide internet services across India.

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## Rating Rationale

October 12, 2018 | Mumbai

### IKF Technologies Limited

*Long-term rating downgraded to 'CRISIL B'; Ratings continues on 'Watch Negative'*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.11 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL B (Downgraded from 'CRISIL B+'; Continues on 'Rating Watch with Negative Implications')</b>
<b>Short Term Rating</b>	<b>CRISIL A4 (Continues on 'Rating Watch with Negative Implications')</b>

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has downgraded its long term rating on the bank facilities of IKF Technologies Limited (IKF) to '**CRISIL B**' from 'CRISIL B+' and ratings continues on '**Rating Watch with Negative Implications**'.

The ratings were placed on watch on 16th August 2017 following IKF being listed among the 331 suspected shell companies in Securities and Exchange Board of India's (SEBI's) notification dated August 7, 2017 to Bombay Stock Exchange (BSE), National Stock Exchange of India Ltd and Metropolitan Stock Exchange of India Ltd. SEBI's notification directed the exchanges to put significant restrictions on the trading of shares for the listed entities and initiate measures for verification of the credentials and fundamentals of the companies. Though the management has written and appealed against the above to BSE, the eventual impact on operations from the SEBI order is not yet ascertainable. Currently the operations are continuing normally as per management.

CRISIL is closely monitoring the announcements from SEBI pertaining to the above and will remove the ratings from watch after the outcome of the proposed due diligence to be conducted by the exchanges is released and CRISIL is able to ascertain the impact of the same on the credit profile of the company.

The downgrade in the long term rating reflects deterioration in the working capital cycle with stretched debtor days in fiscal 2018. The debtor days increased to around 864 days as on March 31, 2018 as against around 537 days a year earlier. Furthermore, the business risk profile has also weakened with revenues consistently declining over last three fiscals through fiscal 2018. The topline has dipped to around Rs 41 crores in fiscal 2018 as against Rs 58.78 crores and Rs 62.06 crores in fiscal 2017 & fiscal 2016 respectively.

CRISIL's ratings continue to reflect the company's working capital-intensive operations due to stretched receivables, significant advances to, and investments in, subsidiaries and sister concerns, and exposure to intense competition. These weaknesses are partially offset by the extensive experience of its management.

## Key Rating Drivers & Detailed Description

### Weaknesses

#### \* Working capital intensive operations

The operations of the company have been working capital intensive as reflected in its high gross current assets (GCAs) days. The GCA days are high mainly driven by the stretched debtors of the company which stood at 864 days as on March 31, 2018 and 537 days as on March 31, 2016. Efficiency in working capital management amidst increase in scale shall continue to be key rating driver over the medium term.

\* **Significant advances to, and investments in, subsidiaries and sister concerns:** IKF's financial profile and liquidity continues to be significantly constrained due to significant advances and investments made in its wholly owned subsidiaries and sister concerns which stood at around Rs 85 crores as on March 31, 2018. CRISIL believes that extension of any further such sizeable advances or investments can adversely impact the liquidity profile of the company.

\* **Exposure to intense competition:** IKF's business risk profile is constrained by the high degree of competition from several large and medium sized players operating from various locations in India. Other key factors affecting the performance of players like IKF include acquiring and retaining new customers, maintaining an efficient cost structure, and ensuring effective labour retention and utilisation. Protectionist measures adopted by the US remain yet another business challenge for Indian IT companies. Despite having implemented and completed projects in a timely manner in the past, CRISIL expects IKF to remain exposed to intense competition from the larger players which could affect the performance of the company over the medium term.

### Strength

\* **Extensive industry experience of management:** Mr. Sunil Kumar Goyal is the Director and CEO of IKF. Mr. Goyal have more than a decade of experience in the BPO and IT industry through IKF. He has over 15 years of experience in Business Management, strategic alliance, business development and strategic planning and is currently assisted by a professional team as well. The current management has developed good relationship with the group's customers over the years including telecom companies such as Aircel Ltd, MTS and Idea Cellular Ltd amongst others. Due to their strong networking in the BPO and IT/ITES sector, IKF has been able to attract new customers like Dish TV. CRISIL believes that IKF will continue to benefit from the management's extensive industry experience over the medium term.

### About the Company

IKF based in Kolkata (West Bengal) was incorporated in 2000 as IKF Software.com Ltd to carry on the software development business and provide IT-enabled services. The company got its present name in 2001 following the initial public offering in 2001. In 2008, it got Internet Service Provider Category 'A' license from the Department of Telecom, Government of India to provide internet services across India.

### Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs cr	40.04	57.85
Profit After Tax (PAT)	Rs cr	0.27	(3.09)
PAT Margins	%	0.67	(5.3)
Adjusted debt/adjusted networkth	Times	0.46	0.07
Interest coverage	Times	3.27	5.02

Any other information: Not applicable

### Note on complexity levels of the rated instrument:

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## Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs cr)	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	7.0	CRISIL B/Watch Negative
NA	Term Loan	NA	NA	Dec-2018	2.0	CRISIL B/Watch Negative
NA	Bank Guarantee	NA	NA	NA	2.0	CRISIL A4/Watch Negative

## Annexure - Rating History for last 3 Years

Instrument	Type	Current		2018 (History)		2017		2016		2015		Start of 2015	
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating	
Fund-based Bank Facilities	LT/ST	9.00	CRISIL B/Watch Negative	19-07-18	CRISIL B+/Watch Negative	10-11-17	CRISIL B+/Watch Negative	30-12-16	CRISIL B+/Stable	--	--	--	
				26-04-18	CRISIL B+/Watch Negative	16-08-17	CRISIL B+/Watch Negative						
				06-02-18	CRISIL B+/Watch Negative								
Non Fund-based Bank Facilities	LT/ST	2.00	CRISIL A4/Watch Negative	19-07-18	CRISIL A4/Watch Negative	10-11-17	CRISIL A4/Watch Negative	30-12-16	CRISIL A4	--	--	--	
				26-04-18	CRISIL A4/Watch Negative	16-08-17	CRISIL A4/Watch Negative						
				06-02-18	CRISIL A4/Watch Negative								

All amounts are in Rs.Cr.

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	2	CRISIL A4/Watch Negative	Bank Guarantee	2	CRISIL A4/Watch Negative
Cash Credit	7	CRISIL B/Watch Negative	Cash Credit	7	CRISIL B+/Watch Negative
Term Loan	2	CRISIL B/Watch Negative	Term Loan	2	CRISIL B+/Watch Negative
<b>Total</b>	<b>11</b>	<b>--</b>	<b>Total</b>	<b>11</b>	<b>--</b>

## Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Criteria for rating short term debt](#)

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