February 27, 2023

Epicenter Technologies Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Unallocated	10.00	5.97	[ICRA]BBB(Stable); reaffirmed
Short-term Non-fund Based	4.25	8.28	[ICRA]A3+; reaffirmed
Total	**14.25**	**14.25**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in Epicenter Technologies Private Limited's (ETPL's) healthy financial risk profile characterised by a debt-free capital structure, robust credit metrics and a strong liquidity position, and its established track record and extensive experience of the promoters and management in the business process outsourcing (BPO) industry. On a provisional basis, as on September 30, 2022, the company had unencumbered cash and cash equivalents of Rs. 83.3 crore. Aided by its minimal dependence on external borrowings, credit metrics have also remained robust with interest cover of 150.6x and DSCR of 128.8x in FY2022.

The ratings, however, remain constrained by ETPL's high customer and geographic concentration risks, as reflected in a sequential moderation in operating performance over the recent past. The company derived ~78% of its FY2022 revenues from its top three customers, and 67% of its revenues during this period from the US market. With slowdown in requirements of its top three customers over the recent past, ETPL's employee base contracted to 1,924 in H1 FY2023 from 3,271 in FY2021, while revenues contracted to Rs. 70.1 crore from Rs. 177.2 crore, and operating profitability moderated to 13.3% from 28.9% in the same period. Additionally, recessionary trends in its key market of USA pose potential headwinds to growth. ETPL's ability to navigate these and improve its scale of operations and its profitability through addition of new customers, or retention/scale-up of existing customers would remain a key monitorable over the near term. The ratings also consider the vulnerability of ETPL's profitability to fluctuations in currency rates, given its export-dominated sales profile and intense competitive pressure from other organised as well as unorganised players in the BPO industry.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company is likely to maintain a comfortable financial profile and liquidity position over the near to medium term, supported by minimal dependence on external borrowings, and cash flows generated from operations.

Key rating drivers and their description

Credit strengths

Established track record of the company and extensive experience of the management in the BPO industry – Incorporated in 2000, ETPL has a long operating track record in the BPO industry with an experienced management team. ETPL's directors, Mr. Pravin Gandhi, Mr. Rajesh Thankappan and Mr. Kenneth Eldred, have an extensive experience of nearly two decades in the information technology (IT)/ BPO industry.

Debt-free capital structure, robust debt coverage indicators and comfortable liquidity position – With consistent and healthy addition of accruals to reserves over the last three fiscals, ETPL's net worth stood at Rs. 110.3 crore as on March 31, 2022. On the other hand, ETPL continued to operate debt-free. Due to zero debt and comfortable profitability levels, ETPL's debt coverage indicators continued to remain robust as reflected by its interest coverage of 150.6 times and TOL/TNW of 0.4 time as on March 31, 2022. Furthermore, its liquidity profile was supported by free cash and cash equivalents to the tune of Rs. 83.3 crore as on September 30, 2022.

Credit challenges

High customer and geographical concentration risks – ETPL's customer concentration risk remains high with its top three customers accounting for 78% and 73% of its total sales in FY2022 and H1 FY2023, respectively; although the share from its largest customer has reduced. USA continued to dominate ETPL's revenues, accounting for almost two-thirds of its total revenues in FY2022. Any loss of business from its key clients or changes in regulations/ policies related to outsourcing by the US Government remain key concerns for ETPL. The risk associated with the client concentration was visible in its performance in FY2022 and H1 FY2023, when reduced requirements from its top three customers for various reasons resulted in revenues contracting to Rs. 70.1 crore in H1 FY2023 from Rs. 177.2 crore in FY2021, and operating profit margin (OPM) contracting to 13.3% from 28.9% during this period.

Vulnerability of profitability to fluctuations in foreign exchange rates – About 69% of ETPL's FY2022 revenues came from overseas clients, exposing its profitability to fluctuations in foreign exchange rates. Nonetheless, the company tries to mitigate its forex risk by booking forward contracts for its foreign currency receivables to the tune of 60-70% of its open exposure at any given point.

Relatively small scale of operations; threat from organised as well as unorganised players – The company's scale of operations remains relatively small compared to its peers. ETPL faces stiff competition from large, established as well as small, unorganised companies in the BPO industry. Given the low complexity of the work involved, its pricing flexibility and bargaining power with customers remain limited.

Liquidity position: Strong

ETPL's liquidity position remains strong with unencumbered cash and cash equivalents of Rs. 83.3 crore as on September 30, 2022. Against this, ETPL does not have any long-term debt on its books and capex plans remain minimal at Rs. 2-3 crore annually. Although the company may pursue some inorganic investments in case of any lucrative opportunities, the same is likely to be funded largely from the existing liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade ETPL's ratings if it exhibits any significant sustained growth in revenues and diversification of its customer base, while maintaining its healthy margin profile. Other factors that may lead to a rating upgrade include a material improvement in its net worth position.

Negative factors – ICRA could downgrade ETPL's ratings in case there is any further reduced order inflow from its key customers resulting in decline in revenues. Additionally, continued pressure on margins or deterioration of working capital cycle on a sustained basis, impacting the liquidity position or debt-funded inorganic or capex related investments that adversely impact credit metrics on a sustained basis, may also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 2000, ETPL is a voice-based BPO company providing collection services, query support and sales. The company operates out of three different facilities at Bhayander, Thane (Maharashtra), with an employee base of 1,924 as of September 2022. Till FY2018, ETPL was a part of the Kalyani Group, which held ~56% stake through its two associate companies, BF Investment Limited and Sundaram Trading & Investment Private Limited. However, during FY2019, the Kalyani Group exited ETPL by selling off its stake to an existing shareholder, ZBRS Private Limited (ZBRS), promoted by Mr. Rajesh Thankappan. ZBRS is an IT services and support provider. As on March 31, 2022, ETPL was held by ZBRS and Mr. Kenneth Eldred (co-founder of Ariba Technologies, USA), with the former holding ~72% and the rest held by Mr. Kenneth Eldred and family.

The services offered by the company are collection services, which constitutes most of the business, along with query support, sales, order processing, customer services, credit counselling and debt management. In addition, it offers more value-added services such as credit counselling and debt management, selling insurance products for telecom peripherals, and generating leads for new product launches and campaigns, among others.

Key financial indicators (audited)

EPTL Consolidated	FY2021	FY2022
Operating income	177.2	168.5
PAT	38.2	24.9
OPBDIT/OI	28.9%	18.6%
PAT/OI	21.5%	14.8%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	206.2	150.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 27, 2023	Nov 23, 2021	Aug 11, 2020	Aug 21, 2019
1	**Fund-based Cash Credit**	Long term	-	-	-	-	**[ICRA]BBB- (Stable)**	**[ICRA]BB+ (Positive)**
2	**Non-fund-based**	Short term	8.28	-	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3**	**[ICRA]A4+**
3	**Unallocated**	Long term	5.97	--	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term non-fund based	Simple
Long-term– Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Unallocated**	NA	NA	NA	5.97	[ICRA]BBB(Stable)
NA	**Non-Fund based**	NA	NA	NA	8.28	[ICRA]A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sruthi Thomas
+91 124 4545 822
sruthi.thomas@icraindia.com

Karan Punjabi
+91 22 6169 3358
karan.punjabi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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