

March 17, 2022

Ramco Systems Limited: Ratings reaffirmed and outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based/CC	35.00	35.00	[ICRA]A (Negative); reaffirmed and outlook revised to Negative from Stable
Short-term, Fund-based	137.50	137.50	[ICRA]A2+; reaffirmed
Short-term, Non-fund Based	30.50	30.50	[ICRA]A2+; reaffirmed
Unallocated	11.50	11.50	[ICRA]A (Negative)/[ICRA]A2+; reaffirmed and outlook revised to Negative from Stable
Total	214.50	214.50	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook to Negative considers that Ramco Systems Limited's (RSL) revenues will remain subdued over the next two quarters, impacting its profitability. The company's revenues moderated over the last three quarters as restrictions on travel (because of Covid-19 pandemic) in its key markets, especially in Asia, reduced order inflows and licensing deals. ICRA notes that with gradual easing of travel restrictions in RSL's key markets, order inflow is expected to improve; however, recovery in revenues would take another couple of quarters given the high lead time in order execution. While the revenues declined, the company's costs have increased significantly in the current year with resumption of travel and increased employee expenses; moreover, the company had provided for bad debts of Rs. 42.5 crore in 9M FY2022. As a result, the company's OPM reduced to 2.1% in 9M FY2022 from 26.3% in FY2021, and it incurred net loss of Rs. 46.5 crore during the period. ICRA notes that the company's costs will continue to remain high, and margins are expected to remain under pressure for the next couple of quarters until revenues improve significantly.

The rating draws comfort from the extensive track record of Ramco Systems Limited (RSL), its established presence in the enterprise resource planning (ERP) business, and its long-term association with clientele of leading global companies across diversified verticals. ICRA also notes the financial flexibility arising from being part of the Ramco Group. The company has expanded its presence across geographies and diversified into other segments, leading to an improvement in order size in last few years. Nonetheless, unbilled revenues continue to remain relatively high, despite reduction in the current year, because RSL provides an extended credit period (as per the business model) in several cases in respect to license fees, which would become due for payment over a period ranging upto 60 months. Moreover, the company's capitalisation and coverage metrics have remained healthy during the last few years.

ICRA takes note of RSL's high research and development (R&D) requirements that necessitate continuous investments, which are capitalised and result in high amortisation expenses. The ratings remain constrained by competition from much larger players in the segment, working capital intensive operations, susceptibility to exchange rate volatility, risk of employee attrition and vulnerability to changes in policies of domestic and foreign governments for the IT industry at large.

Key rating drivers and their description

Credit strengths

Extensive track record of nearly three decades and established presence in the ERP segment - Incorporated in 1997, RSL offers customised global payroll, logistics, SRP and EAM for various industries and has developed considerable expertise in catering to the aviation sector which includes Heli and MRO segment; it has forayed into US defense sector as well.

Diversified customer base of reputed companies – The company has an established clientele of reputed companies from diverse sectors. RSL enjoys very high customer diversification with repeat orders from large clients, including industry majors even as the company continues to add a healthy number of new customers every year. However, new customer additions in 9M FY2022 witnessed some moderation with markets not fully approachable due to travel restrictions in some of RSL's key markets in the Asia-Pacific region.

Financial flexibility as part of the Ramco Group – The Ramco Group of companies has diversified interests in cement, cotton, synthetic yarn, building products, software solutions, clean energy and biotechnology, among other sectors. RSL derives financial flexibility by being a part of the Ramco Group.

Comfortable capital structure – RSL's debt profile consists of only working capital debt and utilisation has been nominal at Rs. 9.8 crore as on December 31, 2021. Accordingly, the capital structure and coverage indicators remained healthy with reported gearing of 0.09 times as on September 30, 2021. While ICRA expects debt levels to increase marginally in the near term on account of subdued margins impacting its cash flows, its debt metrics are expected to remain comfortable, going forward.

Healthy order book position is expected to support revenue stability – The unexecuted order book stood at \$185.4 million as on December 31, 2021 (compared to \$182.7 million as on March 31, 2021) at a robust 2.4 times of 12-month trailing revenues of the company. Healthy order book is expected to support revenue stability over the medium term; however, the same would be delayed given the higher lead time in order execution. Any large reversals remain a sensitivity factor and will be monitored.

Credit challenges

Steep decrease in profitability owing to higher fixed costs and moderation in top line – Ramco Systems Limited (RSL) witnessed sustained moderation in revenues over the last three quarters. The company had posted a topline of Rs. 407.2 crore in 9M FY2022 at a YoY decline of 14.5%. The revenue declined because of lockdowns and travel restrictions in its key markets in the Asia-Pacific region. Both its ERP and HRP products require in-person meetings and demos in the Asia region to convince clients on the potential long-term benefits. Further, the company's margins declined to 2.1% in 9M FY2022 from 26.3% in FY2021 on account of higher employee expenses and travel costs. The fixed costs are expected to remain high as RSL is undertaking employee retention activities and building bench strength across divisions. While fixed costs are expected to remain high in the coming quarters, revenue recovery is expected to be delayed due to the high lead times involved between initial client interaction and initiation of project implementation, impacting the margins as well.

High competitive intensity – RSL faces intense competition from large established players such as SAP SE, Oracle Corporation., Netsuite Inc., among others, which limits its pricing flexibility and puts pressure on its margins.

Exposure to forex risk – RSL's profit margins are susceptible to volatility in forex rates and have been impacted by forex gain/(loss) arising from the same in the past. Some of the losses may be just mark to market provisions, which might be reversed subsequently. The company tries to mitigate the risk to an extent by timing the receivables from its subsidiaries and also by repaying the outstanding PCFC debt using exports proceeds in foreign currency.

High working capital intensity resulting from high receivables and unbilled revenues - The company's operations are working capital intensive in nature on account of high debtor days of generally over 100. The working capital profile of the company also consists of considerable unbilled revenues. However, the management's conscious decision to move to subscription model

for its HRP products reduced the quantum of unbilled revenues marginally in the current year. Working capital intensity of the company remains high in the range of 40–45% levels. Any large bad debt write-off (compared to normalised levels) remains a sensitivity factor.

High R&D spend – RSL incurs significant capex every year mainly towards R&D expenses, which is capitalised. This R&D expenditure, if debt-funded, can put some pressure on the capital structure.

Vulnerable to industry risks such as employee attrition and adverse changes in Government policies - The company is also exposed to broader IT industry risks such as high employee attrition and adverse changes in foreign and domestic Government policies, etc.

Liquidity position: Adequate

RSL's liquidity is adequate with expected cash flow from operations of nearly Rs. 30 crore per annum over the near term, ~Rs. 60 to 70 crore buffer in the form of unutilised working capital (after factoring in the drawing power), and cash and bank balances of Rs. 18.3 crore as on December 31, 2021. RSL had prepaid the term loans in FY2021 and does not have any term debt repayment obligation. RSL also has capex commitment of ~Rs. 30-40 crore per annum for FY2023 and FY2024. In addition, the company has healthy financial flexibility as part of the Ramco Group with a demonstrated track record of financial support.

Rating sensitivities

Positive factors – A rating upgrade is unlikely, given the negative outlook on the long-term rating. ICRA could revise the outlook to Stable from Negative if there is sustained improvement in its revenues, coupled with strong recovery in operating margins, on the back of healthy order flows and change in order mix towards higher share of T&M orders. Moreover, an improvement in the working capital intensity, driven by sustained moderation in unbilled revenues and receivable days, is a credit positive.

Negative factors – The rating could be downgraded if any material delay in rebound of revenues or margins stretches its liquidity profile. A stretch in working capital intensity due to delay in recovery or higher-than-expected debt funded capital expenditure could also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Ramco Systems Limited. As on March 31, 2021, the company had 14 subsidiaries and one associate, which are all enlisted in Annexure-2.

About the company

RSL was initially set up as a division of Ramco Industries Limited in 1989, before being spun off into an independent entity in 1999. Headquartered in Chennai, RSL is a leading cloud-based technology company with global operations. It provides ERP, HCM and aviation maintenance and engineering (M&E) as well as maintenance repair and overhaul (MRO) software to customers across the globe. It is part of the reputed Ramco Group of companies, a business conglomerate with interests in cement, cotton, synthetic yarn, cement software solutions, clean energy and biotechnology, among others.

During 9M FY2022, on a provisional basis, the company reported a net loss of Rs. 46.5 crore on an operating income of Rs. 407.2 crore (Consolidated) as against the net profit of Rs. 49.3 crore on an operating income of Rs. 476.5 crore, during 9M FY2021.

Key financial indicators (audited)

RSL Consolidated	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	568.9	626.3	407.2
PAT (Rs. crore)	10.7	56.7	-46.5
OPBDIT/OI (%)	17.2%	26.3%	2.1%
PAT/OI (%)	1.9%	9.0%	-11.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.4	
Total Debt/OPBDIT (times)	1.7	0.4**	
Interest Coverage (times)	7.3	15.9	2.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *provisional financials; ** the debt represents lease liability created as required by IND AS 116 and there is no external debt

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating		Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	
				Mar 17, 2022	Apr 29, 2021	Mar 23, 2020	Apr 08, 2019	Apr 06, 2018	Jul 11, 2017	
Cash Credit	Long Term	35.00	-	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
Term loan	Long Term	-	-	-	[ICRA]A (Stable)	[ICRA]A- (Positive)				
EPC/PCFC/WCDL	Short Term	137.50	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	
LC/Bank Guarantees	Short Term	30.50	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	
Unallocated	Long Term/ Short term	11.50	-	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Positive)/ [ICRA]A2+			

&= Under watch with developing implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
EPC/PCFC/WCDL	Very Simple
LC/Bank Guarantees	Very Simple
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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	35.00	[ICRA]A(Negative)
NA	EPC/PCFC/WCDL	NA	NA	NA	137.50	[ICRA]A2+
NA	LC/BG	NA	NA	NA	30.50	[ICRA]A2+
NA	Unallocated	NA	NA	NA	11.50	[ICRA]A(Negative)/[ICRA]A2+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	RSL Ownership	Consolidation Approach
Ramco Systems Corporation, USA	98%	Full Consolidation
Ramco Systems Ltd, Switzerland	100%	Full Consolidation
Ramco Systems Sdn. Bhd, Malaysia	100%	Full Consolidation
Ramco Systems Pte. Ltd., Singapore	100%	Full Consolidation
RSL Enterprise Solutions (Pty) Ltd., South Africa	100%	Full Consolidation
Ramco Systems Canada Inc., Canada	98%	Full Consolidation
Ramco Systems FZ-LLC, Dubai	100%	Full Consolidation
RSL Software Co. Ltd., Sudan	100%	Full Consolidation
Ramco Systems Australia Pty Ltd., Australia	100%	Full Consolidation
Ramco Systems Inc., Philippines	100%	Full Consolidation
Ramco Systems (Shanghai) Co. Ltd., China	100%	Full Consolidation
Ramco System Vietnam Company Limited, Vietnam	100%	Full Consolidation
PT Ramco Systems Indonesia, Indonesia	100%	Full Consolidation
Ramco Systems Macau Limited, Macau	100%	Full Consolidation
CityWorks (Pty.) Ltd., South Africa	30%	Equity Method

Source: RSL annual report FY2021

Note: ICRA has taken a consolidated view of the parent (RSL), its subsidiaries and associates while assigning the ratings.

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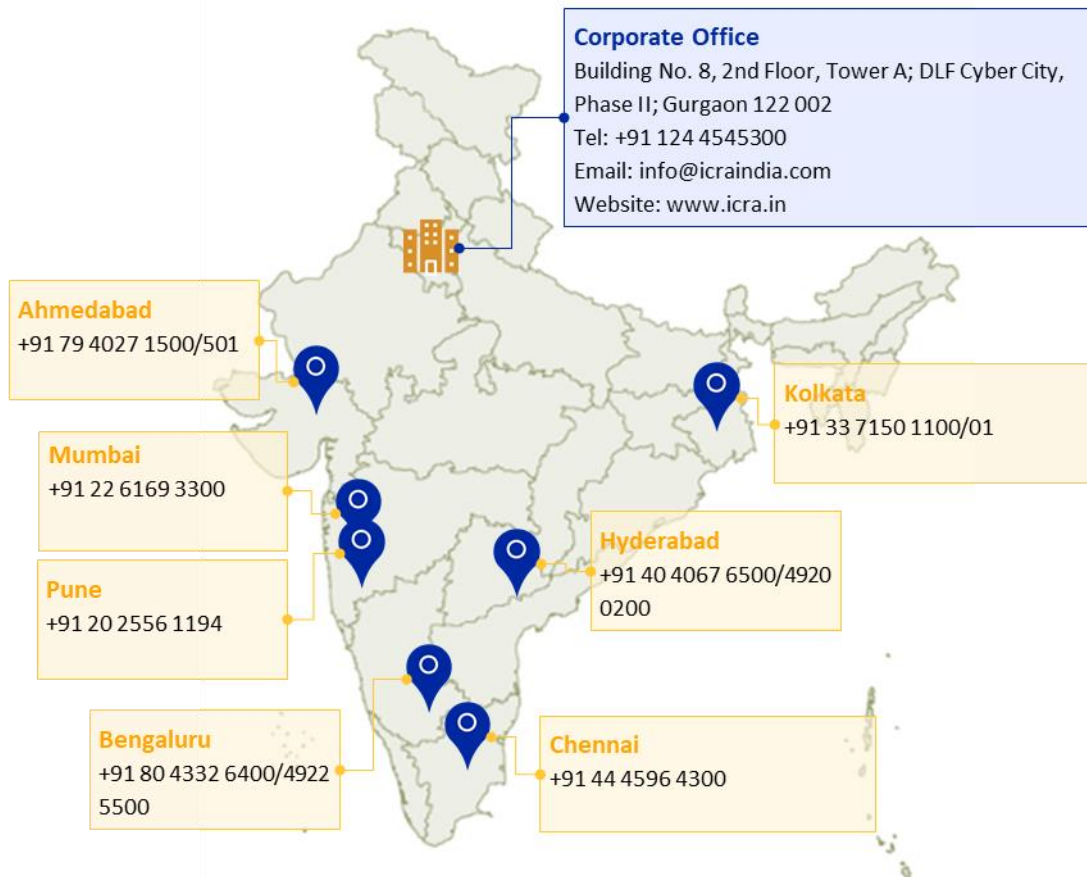
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