January 09, 2025

Kochar Infotech Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term Loan	6.84	2.01	[ICRA]BBB (Stable); reaffirmed
Long-term – Fund-based – Cash Credit	21.00	25.00	[ICRA]BBB (Stable); reaffirmed
Short-term – Non-fund Based – BG	1.00	1.00	[ICRA]A3+; reaffirmed
Long-term/ Short-term – Unallocated Limits	0.16	0.99	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed
Total	**29.00**	**29.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation of Kochar Infotech Limited (KIL) factors in its established operational track record and extensive experience of its promoters in the digital and process transformation industry. Besides, it has a reputed client base across diverse end-user industries, including banking, financial services and insurance (BFSI), e-commerce, online food delivery, telecom, gaming etc. In FY2024, KIL's top line grew by 12% to Rs. 166.2 crore, driven by growth across all segments namely BPO[1], SaaS[2] and IoT[3]. Further, its operating margins improved to ~11% over the same period, supported by stabilisation in wage cost inflation, cost optimisation measures undertaken and relatively higher contribution from the margins accretive segment. KIL earned an aggregate revenue of Rs. 96.0 crore until H1 FY2025 and ICRA expects this growth momentum to sustain in FY2025, supported by higher revenue from existing clients, new client addition across verticals and the company's efforts to optimise overall costs.

KIL had set up a delivery centre at Amritsar (Punjab) under Maxicus Technologies Private Limited (KIL's subsidiary), which commenced operations in November 2023, with KIL discontinuing some of its previously leased facilities. The company plans to incur further capex in FY2025 to scale up operations at its Amritsar facility, and some portion of this capex would be funded by debt. Despite incremental debt, KIL's capital structure and coverage metrics continue to remain comfortable, supported by steady internal accrual generation.

The ratings, however, remain constrained by KIL's moderate scale of operations and limited pricing flexibility owing to intense competition in the industry from a large number of players. As KIL derives 80-85% of its revenues from BPO operations, it remains exposed to high service concentration risk. Nonetheless, in the recent years, revenues from the non-BPO segments, namely SaaS & IoT SBUs[4], have increased, which are expected to aid in revenue diversification. Further, it is exposed to high client concentration risk, with its top 10 clients accounting for more than 70% of its total revenue in FY2024. Nonetheless, this risk is partly mitigated by the company's long relationships with these industry leading clients, and a gradual moderation of

[1] *BPO – Business-process-outsourcing*

[2] *SaaS – Software as Services*

[3] *IoT – Internet of things*

[4] *SBUs – Strategic business units*

this concentration is anticipated over the medium term, supported by the consistent addition of new clients. KIL is also exposed to challenges related to wage cost inflation and employee attrition that are inherent to the BPO industry in India.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will continue to benefit from its established track record of operations and a growing customer base, enabling it to generate steady internal accruals.

Key rating drivers and their description

Credit strengths

Established track record of operations and extensive experience of promoters in IT services sector — Incorporated in 1995, KIL has been operating in the IT services industry for nearly three decades, and thus has a successful operational track record. It benefits from the strong relationship that it has developed with renowned customers in the BFSI, e-commerce, telecom, and online food delivery sectors. Moreover, Mr. Jitender Jain, the Founder and CMD of the company, has an extensive experience of more than 30 years in the IT services industry. The company will continue to benefit from the strong experience of its promoter and professional managers in the key departments.

Customer base includes reputed players — With a presence of nearly three decades, the company has been able to garner a strong clientele across different sectors. Its customer base includes reputed names like BUNDL Technologies Pvt. Ltd. (Swiggy), Zomato Ltd, Airtel Payments Bank Limited, Samsung India Electronics Private Limited, Fashnear Technologies Pvt Ltd (Meesho), Cars24 Services Pvt. Ltd. etc. Over years, the company has consistently expanded its clientele as well as service lines.

Comfortable capital structure and coverage metrics — Over the years, KIL's capital structure has remained comfortable, supported by steady accruals and relatively lower debt levels. In FY2023 and FY2024, the company's subsidiary incurred significant capex towards setting up a delivery centre in Amritsar. A portion of the same was funded through debt, which led to some increase in its debt levels and moderation in coverage metrics. Despite this, KIL's credit metrics remain comfortable with TOL/TNW of 1.0 time as on March 31, 2024, Total Debt/OPBDITA of 1.8 times and DSCR of 2.5 times for FY2024. The company is expected to maintain a comfortable capital structure and coverage metrices, supported by steady accrual generation and no significant increase in its debt levels expected over the medium term.

Steady revenue growth — Despite the pandemic, KIL's revenue witnessed consistent growth, marking a CAGR of 7.3% over the past five years. The consistent increase in revenue was primarily driven by growth in Ksoft and IoT segments. While revenue from the BPO segment rose at a CAGR of ~4%, Ksoft and IoT witnessed a CAGR of ~26% over the past five years. Consequently, revenue share from the BPO segment moderated to ~80% in FY2024 from 90% in FY2020. ICRA expects the revenue growth momentum to sustain on the back of new client addition and the company's efforts to diversify into higher margin accretive segments.

Credit challenges

Moderate scale of operations restricts competitive position — With revenues of Rs. 166.2 crore in FY2024, the company continues to be a mid-sized service provider for BPO, SaaS and IoT solutions. Its existing scale of operation remains considerably lower than other major players in the IT-BPO services industry. This constrains its ability to benefit from the economies of scale and weighs on its competitive position vis-à-vis large-sized entities. Further, a moderate scale exposes it to the risks of business downturn, limiting its ability to absorb a temporary disruption and leverage fixed costs.

Intense competition from large number of players in domestic market and other low-cost countries – Operating primarily in the BPO industry, the company faces stiff competition from several other organised and unorganised players in the domestic market as well as from other low-cost countries. As outsourcing is primarily driven by cost savings, the industry remains competitive with regards to pricing its services. This limits its pricing flexibility and bargaining power with customers, putting pressure on its revenues and margins. Further, the company is exposed to wage cost inflation and employee attrition inherent to the BPO industry in India.

Relatively high client concentration risk — KIL's top 10 customers generated more than 70% of its overall revenues in FY2024, exposing the company to high client concentration risk. Nonetheless, these entities are established and reputed players in their respective industries, with timely and satisfactory payment track records, which mitigates this risk to some extent.

High service concentration risk with BPO services driving revenues — The company primarily operates in three service lines—BPO, software development and IoT-based solutions, with significant presence in BPO and limited presence in other segments. It derives more than 80% of its revenues from the BPO segment. Any unforeseen impact of alternative technologies on the Business Process Management (BPM) industry can impact the overall scale and margins of the company. However, it mitigates the risk to an extent via constant technology upgradation, increased revenue contribution from its software business, and increasing focus on diversifying its end-user sectors.

Liquidity position: Adequate

KIL's liquidity profile is adequate, supported by steady internal accrual generation, free cash and investments of ~Rs. 12.0 crore and buffer in the form of adequate undrawn working capital bank lines (Rs. 8-9 crore) as of September 2024. ICRA notes the debt repayments of Rs. 3-4 crore against the sizeable debt-funded capex incurred by the company's subsidiary towards setting up the delivery centre in Amritsar. Despite the same, KIL's liquidity profile is expected to remain adequate, supported by steady accrual generation.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a healthy increase in scale, with improvement in profitability and liquidity profile on a sustained basis.

Negative factors – A significant decline in revenue and profitability on a sustained basis along with a stretched working capital cycle, exerting pressure on the liquidity position, could lead to ratings downgrade. Specific credit metrics include Total Debt/OPBDITA of more than 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology IT- Software & Services
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidated

About the company

Incorporated in 1995, KIL is the flagship company of the Kochar Group, and operates in the realm of digital and process transformation solutions, integrating advanced technology with strategic business process optimisation. The company has three distinct SBUs including Maxicus, KSOFT and IGZY. Maxicus serves as the BPM arm. KSOFT is the software solutions division that focuses on digital customer engagement and experience management platforms with SaaS products primarily catering to international markets (25+ countries) serving global telcos and enterprise clients with Etisalat, Vodafone, TATA as some of the marquee clients. IGZY is the latest venture that aims at providing platform-based IoT solutions using latest technology solutions like Artificial Intelligence and Machine Learning, targeting enterprise clients across BFSI, Retail and Logistics segments. The unit has already signed up India's leading brands including ICICI, Fincare, Kama etc. The company operates out of six cities in India, namely Amritsar, Mumbai, Gurgaon, Vadodara, Kolkata and Bangalore. The Kochar Group consists of private sector business entities with interests in IT, consulting, BPO/KPO services, and textiles.

Key financial indicators (audited)

KIL - Consolidated	FY2023	FY2024
Operating income	148.3	166.2
PAT	4.4	8.3
OPBDIT/OI	7.1%	11.0%
PAT/OI	3.0%	5.0%
Total outside liabilities/Tangible net worth (times)	0.8	1.0
Total debt/OPBDIT (times)	2.1	1.8
Interest coverage (times)	6.1	5.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)		Chronology of rating history for the past 3 years							
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund based limits – Term loan	Long Term	2.01	09-Jan-2025	[ICRA]BBB (Stable)	08-Jan-2024	[ICRA]BBB (Stable)	28-Nov-2022	[ICRA]BBB (Stable)	18-Nov-2021	[ICRA]BBB (Stable)
Fund based – Cash Credit	Long Term	25.00	09-Jan-2025	[ICRA]BBB (Stable)	08-Jan-2024	[ICRA]BBB (Stable)	28-Nov-2022	[ICRA]BBB (Stable)	18-Nov-2021	[ICRA]BBB (Stable)
Non-Fund Based- Bank Guarantee	Short-term	1.00	09-Jan-2025	[ICRA]A3+	08-Jan-2024	[ICRA]A3+	28-Nov-2022	[ICRA]A3+	18-Nov-2021	[ICRA]A3+
Unallocated Limits	Long term and Short term	0.99	09-Jan-2025	[ICRA]BBB (Stable)/ [ICRA]A3+	08-Jan-2024	[ICRA]BBB (Stable)/ [ICRA]A3+	28-Nov-2022	[ICRA]BBB (Stable)/ [ICRA]A3+	18-Nov-2021	[ICRA]BBB (Stable)/ [ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - fund-based – Term Loan	Simple
Long-term – fund based - Cash Credit	Simple
Short-term - Non-Fund Based – BG	Very Simple
Long-term and Short-term - Unallocated Limits	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	**Term Loans**	FY2020	10.20%	FY2028	2.01	[ICRA]BBB (Stable)
NA	**Cash Credit**	NA	NA	NA	25.00	[ICRA]BBB (Stable)
NA	**Bank Guarantee**	NA	NA	NA	1.00	[ICRA]A3+
NA	**Unallocated**	NA	NA	NA	0.99	[ICRA]BBB (Stable) /[ICRA]A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	KIL's Ownership	Consolidation Approach
Maxicus Technologies Private Limited	100%	Full Consolidation
Kochar Innovations Private Limited	100%	Full Consolidation
Kochiva Private Limited	100%	Full Consolidation
Igzy Technologies Private Limited	100%	Full Consolidation

Source: Company

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ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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