



## Press Release

### ACN Infotech (India) Private Limited

July 01, 2020

#### Rating

| Instrument/Facilities  | Amount<br>(INR Crore)                    | Ratings                 | Rating Action |
|--|--|-------------------------|---------------|
| Short Term Non-Fund Based Limits<br>(Foreign Bank Guarantee) | 52.00                                    | IVR A3<br>(IVR A Three) | Reaffirmed    |
| <b>Total</b>   | <b>52.00</b><br><b>(Fifty Two Crore)</b> |                         |               |

**Details of facilities are in Annexure 1**

#### **Rating Rationale**

The reaffirmation of rating of ACN Infotech (India) Private Limited continues to derive comfort from its experienced and qualified promoters and management, good credit profile of the company, large scale of operation of the subsidiaries, good profitability margins and comfortable debt coverage of the subsidiaries and diversified services portfolio of the group. The ratings are however constrained by small scale of operation and moderate profitability margins of the holding company, high amount of contingent liabilities, substantial investment in subsidiaries, geographic and customer concentration of revenues and high amount of expenditure on research and development/WIP.

#### **Key Rating Sensitivities:**

##### **Upward Rating Factor:**

- Substantial improvement in the scale of operation & profitability of holding company.

##### **Downward Rating Factor:**

- Decline in scale of operations of wholly owned subsidiary



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### Detailed Description of Key Rating Drivers

#### Key Rating Strengths

##### ***Experienced and qualified promoters & management***

Chaman Baid is the founder of ACN Infotech (India) and serves as its managing director and CEO since the inception of the company in 2001. He has over 23 years of experience; he is responsible for the operations of ACN Infotech (India) as well as for the company's global business interests. Mr. Nandan Setlur is the executive director and is responsible for all activities of the group in US. He has over 26 years of industry experience. Aman Baid manages the operations of ACN in the Asia-Pacific region. He has over 20 years of industry experience.

##### ***Credit profile of the company***

The company has a good credit profile with comfortable capital structure and debt coverage indicators. The overall gearing of the company was 0.01x as on March 31, 2020 (provisional). The overall gearing has historically been comfortable at very low levels. Total debt to GCA remained low at 0.24x in FY20 (provisional), which has improved from 1.03x in FY17. As there are no significant long term borrowings by the company, hence the long term debt to GCA (0.24x) was almost at similar levels as compared to FY19.

##### **Large scale of operations, good profitability margins and comfortable debt coverage indicators of the subsidiaries**

The gross revenue of ACN Technologies Inc. increased from INR117.35 Crore in year ending on December 31, 2017 to INR188.06 crore in the year ending on December 31, 2019 (Audited). PAT has also increased from INR28.93 Crore to INR43.17crore in the above period. Revenue of COSA BV which is a subsidiary of ACN Infotech India has increased from INR33.54 crore in the year ending on December 31, 2017 to INR37.43 crore in the year ending on December 31, 2019 (provisional). PAT has also increased marginally from INR4.29 crore to INR5.66 crore during the above period. As there is no long term debt taken by both these subsidiaries, the debt coverage indicators are comfortable.



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However, the financials of COSA BV is unaudited as they are not required to be audited (owing to their size) under the local regulations

### ***Service and geographical diversification***

The company since its inception in 2001 has diversified its service portfolio from IT services to Business Process Management solutions, Document Management and Revenue Cycle Management. The company is diversified geographically with its wholly-owned subsidiaries in USA and Europe.

### **Key Rating Weaknesses**

#### ***Small scale of Operations and Moderate profitability of the Holding Company***

The total revenue of ACN Infotech (India) revenue has decreased from INR4.66 crore in FY17 to INR4.23 crore FY20 (provisional results). The EBITDA and PAT margin of the ACN Infotech India declined marginally from FY19 to FY20 (Provisional). EBITDA Margin has declined from 24.73% in FY19 to 23.24% in FY20 and PAT Margin declined from 12.57% to 12.53% in FY20 respectively. In spite of being in business for over 15 years, the scale of operations of the company continues to be small. It is kind of investment company and revenues are generated in subsidiaries. However, there is an increase in consolidated revenue of ACN and its subsidiaries then there is an improvement in its operating revenue (FY 19: USD 3.59 Crore ; FY 20 : USD 3.97 Crore) , EBITDA Margin (FY 19: 28.33%; FY 20 : 28.60% ) and PAT Margin (FY 19: 21.76%; FY 20 : 21.86% )

#### ***High amount of contingent liabilities***

The company has given foreign bank guarantee (INR52.00 Crore) for two of its wholly owned subsidiaries, to enable these subsidiaries to avail Overdraft facilities from foreign branch of the bank. The collateral security for the Facility Island and building owned by the company besides 15% cash margin. Given the small scale of the operations of the company, the ability of the company to repay the amount in case the contingent liability crystallizes appears to be low. However, considering the profitability and scale of operations of the wholly owned subsidiaries which have availed the loan the probability of crystallization of the contingent liability appears to be low.



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### ***Substantial investment in subsidiaries***

The company has made substantial investment in various subsidiaries (ACN Technologies Inc. and COSA BV). The investment in subsidiaries was high at around 49% of net worth as on March 31, 2019. ACN Technologies Inc. (US based) is into Document Management Services for the US entertainment industry providing services such as scanning, archiving, indexing and hosting. COSA BV (Netherlands based) provides BPM (Business Process Management) solutions to the German, Dutch and Austrian companies.

### ***Geographic and customer concentration of revenues***

ACN Infotech derives most of its revenue from customers based in US, which makes its revenue growth dependent on outsourcing policies of the country (USA). Around 80% of the revenue of ACN Technologies Inc. is from U.S.A. Rest 20% of revenue is from COSA BV and ACN India. Holistically, if the revenue of the entire group is considered, there is a high concentration of revenue from the clients in USA.

### ***High amount of expenditure required in research and development***

Technological advancements and growth in emerging markets are the key drivers of the software industry. The companies invest heavily in research and development (or R&D), which leads to differentiated offerings. The software industry is highly concentrated with few major players contributing to the overall revenue of the industry. Technology is the most important external factor in this industry.

When this is combined with high competition prevailing in the industry, it creates a precarious situation for all the players.

### **Analytical Approach & Applicable Criteria:**

- Standalone
- Rating Methodology for service sector companies
- Financial Ratios & Interpretation (Non-Financial Sector)



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### **Liquidity: Adequate**

Liquidity of company is adequate in absence of any long term loan or repayment obligation. ACN Infotech has only availed. Short Term Non Fund Facilities Foreign Bank Guarantee for its wholly owned subsidiary i.e. ACN Technologies Inc. and COSA BV.

### **About the company**

ACN Infotech (India) Private Limited is a worldwide provider of content management (for US entertainment industry) and business process management solutions / services to small, medium, and large enterprises. It started its business in Visakhapatnam in the year 2001. ChamanBaid is the founder of ACN Infotech (India) and serves as its managing director and CEO since the inception of the company. Over the years the company has grown through inorganic means by acquiring target firms mainly in USA and Europe.

### **Financials (Standalone)**

#### **INR in Crore**

| <b>For the year ended / As on</b> | <b>31-Mar-18 (A)</b> | <b>31-Mar-19 (A)</b> |
|-----------------------------------|----------------------|----------------------|
| Total Operating Income            | 4.79                 | 4.30                 |
| EBITDA                            | 1.47                 | 1.06                 |
| PAT                               | 0.80                 | 0.60                 |
| Total Debt                        | 1.24                 | 0.26                 |
| Tangible Net Worth                | 24.43                | 25.03                |
| EBIDTA Margin (%)                 | 30.62                | 24.73                |
| PAT Margin (%)                    | 14.97                | 12.57                |
| Overall Gearing ratio (x)         | 0.05                 | 0.01                 |

\* Classification as per Infomerics' standards

**Details of Non Co-operation with any other CRA: N.A.**

**Any other information: N.A.**



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### Rating History for last three years:

| Name of Instrument/<br>Facility | Current Rating (Year: 2020-21) |                                |        | Rating History for the past 3 years |   |                            |
|---------------------------------|--------------------------------|--------------------------------|--------|-------------------------------------|---|----------------------------|
|                                 | Type                           | Amount outstanding (INR Crore) | Rating | Rating assigned in 2019-20          | Rating assigned in 2018-19 (September 28, 2018) | Rating assigned in 2017-18 |
| Non-Fund Facilities             | Short Term                     | 52.00                          | IVR A3 | --                                  | IVR A3  | --                         |
|                                 | <b>Total</b>                   | <b>52.00</b>                   |        |                                     |   |                            |

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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### Annexure 1: Details of Facilities

| Sr. No.      | Name of Facility  | Date of Issuance | Coupon Rate/IRR | Maturity Date | Size of Facility (INR Crore) | Rating Assigned/ Outlook |
|--------------|---|------------------|-----------------|---------------|------------------------------|--------------------------|
| 1            | Short Term Non Fund Facilities- Foreign- Bank Guarantee | --               | --              | --            | 52.00                        | IVR A3                   |
| <b>Total</b> |   |                  |                 |               | <b>52.00</b>                 |                          |