

Rating Rationale

July 02, 2024 | Mumbai

Esconet Technologies Limited

'CRISIL BBB-/Stable' assigned to Corporate Credit Rating

Rating Action

Corporate Credit Rating	CRISIL BBB-/Stable (Assigned)
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Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL BBB-/Stable**' corporate credit rating to Esconet Technologies Ltd (ETL).

The ratings reflect the established market position of the company, supported by extensive experience of the management and its above-average financial risk profile. These strengths are partially offset by modest but improving operating margin and exposure to intense competition and risk of technological obsolescence.

Analytical Approach

CRISIL Ratings has consolidated the business and financial risk profiles of ETL and its wholly owned subsidiary, ZeaCloud Services Pvt Ltd (ZSPL), given their significant operational and financial linkages.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market position, supported by extensive experience of the management:** Revenue has recorded a healthy compound annual growth rate (CAGR) of 47%, to reach Rs 141 crore in fiscal 2024, from Rs 94 crore in fiscal 2023. Backed by extensive experience in the IT consulting domain, the management has built healthy relationships with key customers, spread across geographies. Regular addition of new customers and products, and flow of repeat orders from the existing clients will help the company maintain its market position.
- **Comfortable financial risk profile:** After the initial public offer (IPO) issue in February 2024, networth of the group is estimated to be Rs 36.89 crore as on March 31, 2024. Gearing and total outside liabilities to tangible networth ratios were low at 0.06 time and 0.96 time, respectively as on the same date. Debt protection metrics were adequate with interest coverage and net cash accrual to adjusted debt ratios of 5.6 times and 2.73 times, respectively in fiscal 2024. In the absence of any large, debt-funded capital expenditure (capex), Growth in scale of operations and steady accretion to reserves should strengthen the financial risk profile in the absence of any major capex plans.

Weaknesses:

- **Modest, but improving, operating margin:** Operating margin has ranged between 3.3% and 7.1% over the three fiscals ending March 31, 2024 (7.1% in fiscal 2024). Though the margin has improved with increase in scale and operating efficiency, it remains modest. CRISIL Ratings expects the group to report operating margin of 6-8% in fiscals 2025 and 2026. Improvement and sustenance of the margin will be a key monitorable.
- **Exposure to intense competition and risk of technological obsolescence:** Intense competition has led to severe pricing pressure, constraining the profit margin. Furthermore, any change in technology would require realignment of products in consonance with end users. With rapid evolution of the global IT-enabled services sector, competition is intensifying as more companies vie for a share of the revenue pie. ETL competes with international players in most of the verticals. Availability of low-cost skilled talent is also a key variable in this industry.

Liquidity: Adequate

Expected annual cash accrual of over Rs 7 crore should comfortably cover negligible debt obligation over the medium term. Utilisation of the bank limit (of Rs 7.5 crore) averaged 49.6% over the 12 months through April 2024. A large portion of funds raised through the IPO in February 2024, will be utilised to meet working capital expenses.

Outlook: Stable

CRISIL Ratings believes ETL will continue to benefit from the extensive experience of its promoters in the IT consulting domain.

Rating Sensitivity factors**Upward factors:**

- Sustained growth in revenue and operating margin (to 8-9%), leading to higher net cash accrual
- Sustenance of healthy financial risk profile

Downward factors:

- Decline in revenue and/or operating margin (below 5-6%), leading to lower-than-expected cash accrual
- Large debt-funded capex, impacting liquidity or financial risk profile

About the Company

ETPL, founded in 2012, offers a wide range of IT solutions such as high-performance supercomputing, data centre facilities, encompassing storage servers, network security, virtualisation, and data protection.

Key Financial Indicators

As on / for the period ended March 31	Unit	2024	2023
Operating income	Rs crore	140.55	94.66
Reported profit after tax (PAT)	Rs crore	5.43	3.03
PAT margin	%	3.86%	3.20%
Adjusted debt / adjusted networkth	Times	0.06	2.00
Interest coverage	Times	5.6	5.5

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	NA	NA	NA	NA	NA	NA	NA

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Esconet Technologies Limited	Full Consolidation	CRISIL Ratings has consolidated the business and financial risk profiles of ETL and its wholly owned subsidiary, ZeaCloud Services Pvt Ltd (ZSPL), given their significant operational and financial linkages.
ZeaCloud Services Pvt Ltd		

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2024 (History)		2023		2022		2021		Start of 2021
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Corporate Credit Rating	LT	0.0	CRISIL BBB-/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria

[Rating criteria for manufacturing and service sector companies](#)[CRISILs Bank Loan Ratings - process, scale and default recognition](#)[CRISILs Approach to Financial Ratios](#)[CRISILs Criteria for Consolidation](#)

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