

August 23, 2021

Onward Technologies Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term / Short-term – Fund Based / Non-fund Based Working Capital Facilities	0.00	10.00	[ICRA]BBB-/[ICRA]A3 reaffirmed; Outlook revised to Positive from Stable
Fund Based – Working Capital Facilities	13.75	-	-
Long-term – Fund-based / Non-fund Based Facilities	1.00	-	-
Short-term – Non-fund Based Facilities	1.00	-	-
Total	15.75	10.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook on the long-term rating of Onward Technologies Limited (OTL or the company) reflects the expected improvement in credit profile in the medium term, supported by its comfortable liquidity position, minimal debt on its books and future growth prospects fuelled by the recent round of investments from Convergent Finance LLP. The rating reaffirmation continues to factor in the extensive experience of the promoters of OTL, spanning over three decades in the IT industry. Such an established track record has helped OTL in maintaining well-established relationships with its reputed clientele over the years. Furthermore, OTL's revenue mix exhibits geographical diversification, with presence in both domestic as well as overseas markets. The company is present in the US, the UK and Germany, and has recently launched two subsidiaries in the Netherlands and Canada. Such geographic expansion is expected to reflect positively in OTL's order book.

The ratings, however, continue to remain constrained by the modest scale of operations and moderate level of profitability exhibited by OTL over the years. However, its recent phase of expansion along with enhanced focus on high-margin service offerings are expected to expand its revenue base and profitability metrics to an extent. The company faces intense competition in the engineering research and development (ER&D) space by much larger peers and, therefore, remains exposed to constraints on its pricing flexibility to an extent. The company also remains inherently exposed to currency movement risk with its presence in overseas markets. Any adverse movement in forex could, therefore, affect its profitability, although the presence of a hedging mechanism provides some cushion against extreme volatility in forex movement.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters spanning over three decades in the IT services industry - The promoters of OTL have over three decades of experience in the IT services industry, which has led to the company establishing its presence in the market, especially in the ER&D industry.

Well established relations with reputed clientele; Geographic diversification with presence in the domestic market as well as overseas markets – OTL has well established relationships with its reputed clientele over the years. Such established business relations ensure repeat orders and also provide revenue visibility to the company. The company is operational in the domestic market as well as in overseas markets such as the US, the UK and Germany, and started two new subsidiaries in Netherlands and Canada in the present fiscal. Presence across different geographies safeguards company's revenues against risks pertaining to any specific region.

Comfortable leverage and liquidity position – OTL's consolidated financial profile in FY2021 was characterised by healthy leverage and coverage indicators with healthy unencumbered cash balances, providing cushion to its liquidity profile. Inorganic expansion, if any, could result in moderation in capital structure and liquidity position over the medium term.

Credit challenges

Modest scale of operations and moderate profitability; Exposed to intense competition from the much larger peers constrain pricing flexibility - OTL is operational in the ER&D field, which is characterised by presence of large-scale players. The company competes with the ER&D divisions of such players, which often benefit from economies of scale due to their large scale of operations, thereby exposing OTL to constraints on its pricing flexibility to an extent.

Inherently exposed to currency movement risk with presence in overseas markets; any adverse movement in forex could affect profitability - OTL is inherently exposed to currency movement risk with its overseas operations. Any adverse movement in forex could, therefore, affect the profitability of the company. However, the company has entered into forward contracts to safeguard its forex exposure, which is expected to provide some comfort against the said risk.

Liquidity position: Adequate

OTL's liquidity is expected to remain Adequate, evidenced by its cash and liquid investments and undrawn working capital facilities, aggregating to approximately Rs. 40 crore as of March 31, 2021. The recent round of investments has brought in further funds, enabling OTL with a liquidity of Rs. 70 crore, which is a credit positive. Financing plans for organic/inorganic growth plans could have some moderation in liquidity position over the medium term, though company is expected to maintain liquidity of Rs 15-20 crore post investment for organic and inorganic investment, on a steady state basis.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company exhibits significant improvement in revenue base coupled with improvement in profitability and return indicators.

Negative factors – The ratings could be downgraded if a sustained deterioration in the scale of operations or operating margin leads to stress on the liquidity position of the group.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Information Technology (Services) Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of Onward Group which includes Onward Technologies Limited, Onward Technologies, Inc., Onward Technologies GmbH, and Onward Properties Private Limited. Further details are provided in Annexure-2.

About the company

Incorporated in year 1991, Onward Technologies Limited (OTL) is engaged in the fields of engineering design services and IT applications. The company has its presence in the Indian market as well as overseas markets such as the US, the UK and Germany. The group also started two new overseas subsidiaries – Netherlands and Canada in the present fiscal. OTL along with its overseas subsidiaries (Onward Technologies GmbH, Germany and Onward Technologies Inc., USA) focuses on providing engineering and allied services. Onward eServices Limited (OeSL), another subsidiary of OTL which offered IT and digital services, and majorly operated in the domestic market, was merged into OTL in FY2021.

Key financial indicators (audited)

OTL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	271.5	240.4
PAT (Rs. crore)	6.2	7.3
OPBDIT/OI (%)	8.8%	7.2%
PAT/OI (%)	2.3%	3.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.8
Total Debt/OPBDIT (times)	1.4	1.5
Interest Coverage (times)	6.9	7.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA research

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 Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Aug 23, 2021	Sep 3, 2020 Nov 3, 2020	Jan 16, 2020	Jan 3, 2019	Aug 10, 2018
1	Working Capital Facilities	Long-term / Short-term	10.0	NA	[ICRA]BBB-(Positive)/[ICRA]A3	-	-	-	-
2	Fund based - Cash Credit	Long-term	-	-	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)
3	Non Fund Based – Bank Guarantee	Short-term	-	-	-	[ICRA]A3	[ICRA]A3	-	-
4	Fund Based / Non Fund Based Limits	Long-term	-	-	-	[ICRA]BBB-(Stable)	-	-	-
5	Fund Based – Term Loan	Long-term	-	-	-	-	-	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Fund Based / Non Fund Based Working Capital	Simple

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: [Click Here](#)

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
HSBC Bank	Working Capital Facilities	NA	NA	NA	5.0	[ICRA]BBB-(Positive)/ [ICRA]A3
ICICI Bank	Working Capital Facilities	NA	NA	NA	5.0	[ICRA]BBB-(Positive)/ [ICRA]A3

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	OTL Ownership	Consolidation Approach
Onward Technologies, Inc.	100.00%	Full Consolidation
Onward Technologies GmbH	100.00%	Full Consolidation
Onward Properties Private Limited	100.00%	Full Consolidation

Source: OTL annual report FY2021

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

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