

Netweb Technologies India Limited

Ratings reaffirmed at 'CRISIL A- / Stable / CRISIL A2+ '

Rating Action

Total Bank Loan Facilities Rated	Rs.124.31 Crore
Long Term Rating	CRISIL A-/Stable (Reaffirmed)
Short Term Rating	CRISIL A2+ (Reaffirmed)

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 reaffirmed its ratings on the bank facilities of Netweb Technologies India Ltd (NTIL; formerly known as Netweb Technologies India Pvt Ltd) at 'CRISIL A-/Stable/CRISIL A2+'.

The ratings reflect the established presence of the company supported by the extensive experience of the management in high-performance computing (HPC), storage and cloud segments, and its robust financial risk profile. These strengths are partially offset by lower than expected operating margin, working capital intensive operations and exposure to intense competition and technology obsolescence risk.

Key Rating Drivers & Detailed Description

Strengths:

Established market presence supported by the extensive experience of the management:

Supported by an experienced management team, NTIL has built significant market share over two decades and undertakes in-house research and development (R&D) to offer latest technology and new products. This resulted in revenue increasing at CAGR of 66% to Rs 724 crore in fiscal 2024 (Rs 444 crore in fiscal 2023). The management has longstanding relationships with established customers such as Indian Institute of Technology, Indian Space Research Organization (ISRO), RailTel, University of Delhi, Infosys, Yotta, Zoho and Tata Consultancy Services (TCS). The clientele is diversified across geographies and the company is a recipient of the production-linked incentive (PLI) scheme, which is a flagship scheme of the government of India, and one of the few Indian enterprises in the PLI scheme in server category. It has installed more than 300 Make-in-India HPC and is one of the few players in the market providing end-to-end supercomputing and cloud service solutions. It has also been awarded PLI in the telecom sector. Growing demand for HPC, cloud services, data centres and artificial intelligence, along with favourable government initiatives, will continue to support the business. Regular addition of new customers and products and repeat orders from existing customers along with a new facility for manufacturing server motherboards and printed circuit boards will aid the market position, but timely offtake will remain a key monitorable.

Robust financial risk profile: The company's networth increased to over Rs 420 crore as on March 31, 2024, with issuance of initial public offering (IPO) in July 2023. The company has repaid debt of Rs 22.5 crore, which led to nil gearing and total outside liabilities to tangible networth ratio below 0.5 time as on March 31, 2024. Debt protection metrics were robust due to moderately healthy profitability, as reflected in interest coverage ratio of over 16.5 times in fiscal 2024. In the absence of any debt-funded capital expenditure (capex), the financial risk profile will remain strong over the medium term.

Weaknesses:

Lower than expected operating margins: Operating profitability declined to around 14% in fiscal 2024 as compared to 15.8% in fiscal 2023 and remains below CRISIL Ratings' expectations of 18-19% because of employee stock ownership plan (ESOP) charges of Rs 13 crore and unutilized PLI benefits in fiscal 2024 due to application for new PLI scheme which is expected to reap benefits in coming fiscals. Regular R&D by the company of around 3-4% of revenue for development of new products and improvements to remain relevant in the market further constrains growth in operating profitability, as company initially product development entails high cost and the benefits of those are realized gradually over the product life cycle. This along with commercialization of new manufacturing unit which commenced operations from May-2024 are expected to lead to range bound operating margins around 13-14% over the medium term and its sustained improvement will remain a key monitorable.

Working capital intensive operations: The company's operations have remained working capital-intensive, with estimated gross current assets (GCAs) at around 160-180 days (without cash) as on March 31, 2024. The high working capital has been on account of elongated receivables as payment is received within 80-90 days of billing and inventory of around 40-60 days is maintained as material is procured as per requirement of orders. The improvement in the working capital cycle while ramping up of manufacturing operations in the new facility will remain a key rating sensitivity factor.

Exposure to intense competition and technology obsolescence risk: Intense competition can lead 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. NTIL competes with international players in most of the verticals. Availability of low-cost skilled talent is also a key variable in this industry.

Liquidity: Strong

Bank limit utilisation was low at 32% for the 12 months through March 2024. Cash accrual, expected at Rs 70-90 crore per fiscal, will sufficiently cover yearly term debt obligation of Rs 1.2 crore in fiscal 2025. The current ratio was healthy at around 1.8 times as on March 31, 2024 and expected to remain healthy over the medium term. Further cash and bank balances of over Rs 200 crore from IPO proceeds further aid liquidity profile which will be utilized towards the completion of capex and working capital requirements of the company. Low gearing and moderate networth support financial flexibility, which will help to withstand adverse conditions or downturns in the business.

Outlook Stable

CRISIL Ratings believes NTIL will continue to benefit from the extensive experience of its promoters and established relationships with clients.

Rating Sensitivity factors

Upward factors:

- Steady revenue growth and operating margin over 15-16% leading to higher cash accrual
- Improvement in the working capital cycle leading to further improvement in financial risk profile and liquidity.

Downward factors:

- Decline in revenue or fall in operating margin below 10-11% leading to lower-than-expected net cash accruals
- Large, debt-funded capex or stretched working capital cycle weakening the financial risk profile and liquidity.

About the Company

NTIL was incorporated in 1999 as a proprietorship; the firm was reconstituted as a private limited company in 2016 and as a public limited company in fiscal 2023. The company provides a range of computer server solutions such as HPC, storage, deep learning, big data analytics, cloud and virtualisation. NTIL was involved in the implementation of Kabru supercomputer (India's second-fastest computer) and PARAM YUVA II (fastest supercomputer), and is participating in the National Supercomputing Mission of the government of India. The company is headquartered in Faridabad and has development centres across India. It is promoted by Mr Sanjay Lodha and his family members.

Key Financial Indicators

As on / for the period ended March 31		2024*	2023
Operating income	Rs crore	724.1	444.97
Reported profit after tax (PAT)	Rs crore	75.9	46.94
PAT margin	%	10.48	10.55
Adjusted debt / adjusted networkth	Times	0.02	0.33
Interest coverage	Times	16.55	17.30

*Provisionals

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	15	NA	CRISIL A2+
NA	Bank Guarantee	NA	NA	NA	69.31	NA	CRISIL A2+
NA	Cash Credit	NA	NA	NA	30	NA	CRISIL A- /Stable
NA	Cash Credit	NA	NA	NA	10	NA	CRISIL A- /Stable

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
Fund Based Facilities	LT	40.0	CRISIL A- /Stable		--	11-04-23	CRISIL A- /Stable		--		--	--
			--		--	21-02-23	CRISIL A- /Stable		--		--	--
Non-Fund Based Facilities	ST	84.31	CRISIL A2+		--	11-04-23	CRISIL A2+		--		--	--
			--		--	21-02-23	CRISIL A2+		--		--	--

All amounts are in Rs.Cr.

Annexure – Details of Bank Lenders/Facilities

Facility	Amount (Rs. Crore)	Name of Lender	Rating
Bank Guarantee	15	HDFC Bank Limited	CRISIL A2+
Bank Guarantee	69.31	Indian Bank	CRISIL A2+
Cash Credit	30	Indian Bank	CRISIL A- /Stable
Cash Credit	10	HDFC Bank Limited	CRISIL A- /Stable