

July 26, 2024

Iris Business Services Limited: Ratings upgraded to [ICRA]BBB- (Positive)/[ICRA]A3

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	14.00	11.75	[ICRA]BBB- (Positive); upgraded from [ICRA]BB+ (Positive)
Short-term – Non-fund based – Bank guarantee	5.00	5.00	[ICRA]A3; upgraded from [ICRA]A4+
Short-term – Non-fund based – Forward contract	0.75	1.50	[ICRA]A3; upgraded from [ICRA]A4+
Total	19.75	18.25	

*Instrument details are provided in Annexure-I

Rationale

The ratings upgrade and continuation of Positive outlook on the long-term rating of Iris Business Services Limited (IBSL) factor in the strengthening of its financial risk profile and ICRA's expectations of sustenance of the same over the near to medium term. IBSL reported healthy revenue growth of 39% YoY in FY2024 supported by steady execution of its order book, new client additions and increasing geographical presence. Moreover, higher accrual generation, coupled with continued low reliance on debt, resulted in a comfortable capital structure and coverage metrics for the company. ICRA also notes the recent infusion of equity in the company through preferential allotment of equity shares and share warrants in July 2024, which has led to further improvement in its capital structure and liquidity position. IBSL plans to partly deploy these funds for new product/service development and widen its geographical presence. This, coupled with and increasing focus on compliance and financial reporting by regulators across the globe and addition of new customers, is expected to support IBSL's future growth. Additionally, the ratings continue to factor in the company's established operational record and extensive experience of its promoters in the regulatory technology (reg-tech)/supervisory technology (sup-tech) industry.

The ratings, however, remain constrained by IBSL's modest scale of operations resulting in limited economies of scale and working capital-intensive nature of operations due to a high receivable cycle. IBSL's operating margins remain vulnerable to competitive pressures in the industry and wage cost inflation. Further, its profitability remains susceptible to adverse fluctuations in foreign exchange (forex) on account of considerable revenue contribution from export markets. Nonetheless this risk is mitigated to an extent, given the presence of a selective hedging policy.

Key rating drivers and their description

Credit strengths

IBSL's established operational record and extensive experience of promoters in the IT regulatory technology (reg-tech) industry – IBSL provides software as a service (SaaS) based solutions which are based on extensible business reporting language (XBRL)/other software languages to several capital market regulators, financial institutions, and enterprises across the globe, for meeting their regulatory compliance, risk management and reporting requirements. The promoters/senior leadership team of the company have an extensive experience in the reg-tech/sup-tech space, which has continued to benefit its business profile over the years.

Well-established relationships with reputed customers across geographies – The company maintains established relationships with reputed organisations for its products/solutions and is in business with Fortune-500 companies as well. Its

revenues are diversified across geographies with Africa accounting for 30% of its sales in FY2024, followed by India (28%), Europe & the UK (16%), Asia Pacific (12%), West Asia (7%) and America (6%).

Comfortable capital structure and coverage indicators – IBSL's healthy revenue growth over the past two fiscals supported its accrual generation. The company's low leverage levels, coupled with increasing accrual generation, resulted in a comfortable capital structure and coverage indicators, as reflected in gearing of 0.2x as on March 31, 2024, and interest coverage of 13.2x in FY2024. Moreover, the recent infusion of equity (Rs. 12.5 crore in June 2024 and additional Rs. 7.5 crore to be infused by end of FY2025), along with steady accrual generation of the business are expected to support the company's capital structure and comfortable coverage position over the near to medium term, with negligible expected reliance on external debt.

Credit challenges

Modest scale of operations – IBSL's scale of operations is modest with revenues of Rs. 102.3 crore in FY2024, resulting in limited economies of scale. Nonetheless, IBSL has witnessed healthy revenue growth over the past two fiscals (20% YoY and 39% YoY in FY2023 and FY2024, respectively) with expectation of sustenance of the same over the near term backed by its healthy order book and increasing geographical presence. Onboarding new clients amid positive growth prospects in a niche business industry, and continued product enhancement will all remain key for its scale-up.

Working capital-intensive nature of operations – The operations of IBSL remain working capital intensive owing to an elongated receivable cycle. The same remains high due to higher share of revenues with regulators and public sector clients being its primary customers, while the receivable days are lower for private players. However, IBSL has been able to increase its share of business with enterprises in recent years, which is expected to support in further optimisation of its working capital cycle going forward.

Vulnerability of margins to competitive pressure and forex fluctuations – Given the company's modest scale, its profit margins remain vulnerable to competitive pressure in the industry with larger players offering similar services. Further, due to the substantial revenue contribution from exports, IBSL remains vulnerable to forex fluctuations. However, it uses forex-forward contracts to hedge a part of its exposure, which provides some cushion against the forex risk.

Liquidity position: Adequate

IBSL's liquidity position is **adequate**, supported by its steady internal accrual generation, unencumbered cash and liquid investments of ~Rs. 40 crore and buffer of ~Rs. 5 crore in working capital limits as of May 2024 end. While the company is expected to deploy part of this available surplus towards product development and enhancing geographic footprint, its liquidity profile is expected to remain adequate over the near term on the back of higher internal accrual generation, no debt repayment liabilities and no major capex plans.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company reports healthy growth in scale of operations, while maintaining an adequate liquidity position and coverage indicators.

Negative factors – The ratings could be downgraded if the company exhibits deterioration in profitability or a stretched working capital cycle resulting in stress on its liquidity position, on a sustained basis.

Environmental and Social Risks

Environmental considerations – Given its service-oriented business, IBSL's direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material.

Social considerations – Like other Indian IT software solutions/service companies, IBSL faces the risk of data breaches and cyberattacks that could affect the large volumes of customer data that it manages. Any material lapses on this front could result in substantive liabilities, fines, or penalties and reputational impact. Managing various facets of human capital, including skills, compensation, attrition rate and training, is also a key differentiating factor among these companies. IBSL's track record on this count has been in line with its mid-sized peers in the industry, which mitigates the human capital-induced social risks.

Analytical approach

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

About the company

IBSL, established in 2004, provides compliance, data, and analytics related SaaS solutions to regulators and enterprises globally, to help them comply with regulatory requirements, reduce risks, and improve operational efficiency. The company originally operated as a knowledge process outsourcing (KPO) entity before shifting its business to financial instrumentation and research during CY 2014-15. It currently operates through three business segments — ‘Collect’, ‘Create’ and ‘Consume’ and has been able to position itself as an established player in the reg-tech/sup-tech industry. Headquartered in Navi Mumbai (Maharashtra), IBSL's operations are spread across India as well as overseas markets such as the UK, the US, Italy, and South Africa. The company has set up regional offices in Singapore, the US and Italy to cater to regional demands for its products and services.

Key financial indicators

IBSL – Consolidated	FY2023	FY2024
Operating income	73.6	102.3
PAT	4.3	8.8
OPBDIT/OI	13.0%	14.9%
PAT/OI	5.8%	8.6%
Total outside liabilities/Tangible net worth (times)	1.2	0.8
Total debt/OPBDIT (times)	0.6	0.4
Interest coverage (times)	9.4	13.2

Source: Company; ICRA Research; Amounts in Rs crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; All ratios as per ICRA calculations

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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Jul 26, 2024	12-Jan-24	03-Nov-22	27-Sep-21
1 Fund-based – Cash credit	Long-term	11.75	[ICRA]BBB- (Positive)	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)
2 Non-fund based – Bank guarantee	Short-term	5.00	[ICRA]A3	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
3 Non-fund based – Forward contract	Short-term	1.50	[ICRA]A3	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Short-term – Non-fund based – Bank guarantee	Very Simple
Short-term – Non-fund based – Forward contract	Very 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 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	Fund-based – Cash credit	NA	NA	NA	11.75	[ICRA]BBB- (Positive)
NA	Non-fund based – Bank guarantee	NA	NA	NA	5.00	[ICRA]A3
NA	Non-fund based – Forward contract	NA	NA	NA	1.50	[ICRA]A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	IBSL's Ownership	Consolidation Approach
IRIS Business Services, LLC, United States of America	100.00%	Full Consolidation
IRIS Business Services (Asia) Pte. Ltd., Singapore	98.36%	Full Consolidation
Atanou S.r.l., Italy	100.00%	Full Consolidation
IRIS Logix Solutions Private Limited, India	50.00%	Full Consolidation

Source: IBSL Financial Results FY2024

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About ICRA Limited:

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