

**November 08, 2023**

**National Stock Exchange of India Ltd.,**  
Exchange Plaza, 5<sup>th</sup> Floor  
Plot No:C/1, G Block  
Bandra Kurla Complex, Bandra (E)  
Mumbai – 400 051  
**Scrip: RAMCOSYS**

**BSE Ltd.,**  
Corporate Relationship Department  
Phiroze Jeejeebhoy Towers  
Dalal Street, Mumbai – 400 001  
**Scrip: 532370**

Dear Sir/Madam,

**Sub: Intimation of Credit Rating under Regulation 30 (6) of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 (SEBI LODR)**

**Ref: Revision in the credit rating**

Pursuant to Regulation 30(6) of SEBI LODR, we wish to inform that, Rating Committee of ICRA, after due consideration, has revised the ratings for Rs.214.50 crore Bank Facilities of Ramco Systems Limited as per the table below:

Facilities	Amount (Rs.Cr.)		Existing Rating	Revised Rating
	Existing	Revised		
Long term Fund based/CC (Downgraded)	35.00	35.00	A - (Negative)	BBB+ (Negative)
Short term fund-based facilities (Downgraded)	137.50	137.50	A2+	A2
Short term non-fund based facilities (Downgraded)	30.50	30.50	A2+	A2
Unallocated (Downgraded)	11.50	11.50	A - (Negative)/A2+	BBB+ (Negative)/A2
<b>Total</b>	<b>214.50</b>	<b>214.50</b>		

The Outlook on the long-term rating is continues to remain negative.

The rating rationale of ICRA is enclosed.

The aforesaid information is also being hosted on the website of the Company [www.ramco.com](http://www.ramco.com) in accordance with Regulation 46 of SEBI LODR.

Kindly take on record the same.

Thanking you,  
For **RAMCO SYSTEMS LIMITED**

**VIJAYARAGHAVAN NE**  
**COMPANY SECRETARY**

Encl: As above

**Ramco Systems Limited**

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Tel: +91 44 2235 4510 / 6653 4000, Fax: +91 44 2235 5704 | CIN : L72300TN1997PLC037550

**Registered Office:** 47, P.S.K. Nagar, Rajapalayam 626 108, Tamilnadu, India.

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[www.ramco.com](http://www.ramco.com)

**November 08, 2023**

## **Ramco Systems Limited: Ratings downgraded**

### **Summary of rating action**

<b>Instrument*</b>	<b>Previous Rated Amount (Rs. crore)</b>	<b>Current Rated Amount (Rs. crore)</b>	<b>Rating Action</b>
<b>Long-term Fund-based/CC</b>	35.00	35.00	[ICRA]BBB+ (Negative); downgraded from [ICRA]A-(Negative)
<b>Short-term - Fund-based</b>	137.50	137.50	[ICRA]A2; downgraded from [ICRA]A2+
<b>Short-term - Non-fund Based</b>	30.50	30.50	[ICRA]A2; downgraded from [ICRA]A2+
<b>Unallocated</b>	11.50	11.50	[ICRA]BBB+ (Negative)/[ICRA]A2; downgraded from [ICRA]A-(Negative)/[ICRA]A2+
<b>Total</b>	<b>214.50</b>	<b>214.50</b>	

*\*Instrument details are provided in Annexure-I*

### **Material Event**

Ramco Systems Limited (RSL) announced its Q2 FY2024 results to the stock exchanges on October 30, 2023. In Q2 FY2024, RSL reported an operating income of Rs. 126.8 crore with a net loss of Rs. 145.8 crore. For H1 FY2024, the company's operating income was Rs. 266.4 crore (12% YoY growth) with net loss of Rs. 192.6 crore. The losses in H1 FY2024 include a provision on trade receivables and unbilled revenues to the tune of Rs. 123.6 crore.

### **Impact of Material Event**

ICRA has downgraded the long-term rating to [ICRA]BBB+ (pronounced ICRA triple B plus) from [ICRA]A- (pronounced ICRA A minus) and short-term rating to [ICRA]A2 (pronounced ICRA A two) from [ICRA]A2+ (pronounced ICRA A two plus) for the Rs. 214.50 crore bank lines of the company. The outlook on the long-term rating continues to be Negative.

### **Rationale**

The rating action considers the longer-than expected improvement in RSL's earnings profile. With the pick-up in order book during H2 FY2023, RSL's revenue and earnings were expected to recover in the current fiscal given the inherent lead time between order booking and execution. However, the rebound in revenues has been slower than ICRA's expectation, which coupled with the sharp increase in provisioning towards trade receivables and unbilled revenues has resulted in sharp losses in H1 FY2024. ICRA notes that additional provisioning is undertaken following the management's reviews on recoverability of the old pending receivables and renewed focus on client-specific, geography-specific and project viability issues. The ratings also consider the inherent need for continuous investments towards R&D, competition in the segments RSL operates in, its working capital-intensive nature of operations, susceptibility to exchange rate volatility, risk of employee attrition and vulnerability to any changes in policies of domestic and foreign governments for the IT industry at large.

Nevertheless, RSL's extensive track record and its established presence in the enterprise resource planning (ERP) business, along with its long-term association with its client base of leading global companies across diversified verticals, mitigate these challenges to a large extent. The ratings also consider the strong financial flexibility RSL enjoys with its lenders as part of the Ramco Group, and the infusion of Rs. 130.0 crore in FY2023 (through preferential equity issue and warrants) enabling it to pare down its debt and partly fund its R&D spend and working capital needs. While the credit metrics were affected on the back of subdued profitability, the capitalisation metrics and liquidity position are adequate.

## Key rating drivers and their description

### Credit strengths

**Extensive track record of nearly three decades and established presence in the ERP segment** – Incorporated in 1997, RSL offers customised global payroll, logistics, SRP, and EAM services for various industries. It has developed considerable expertise in catering to the aviation sector; and has forayed into the US defence sector as well.

**Diversified customer base of reputed companies** – The company has an established clientele of reputed companies, including Fortune 200 and Fortune 100 companies from diverse sectors. RSL enjoys very high customer diversification with repeat orders from large clients, including industry majors even as it continues to add a healthy number of new customers every year. RSL added 45 new clients in FY2023, with 10% of the overall revenues accruing from its new customers. ICRA expects the company to consistently add new clients, on the back of its extensive track record of operations and niche product offerings in the aviation sector.

**Financial flexibility as part of the Ramco Group** – The Ramco Group of companies has diversified interests in cement, cotton, synthetic yarn, building products, software solutions, clean energy, and biotechnology, among other sectors. RSL derives financial flexibility by being part of the Ramco Group. ICRA notes the fund infusion in Q4 FY2023 through preferential equity issue and warrants to the tune of Rs. 130.0 crore, which has assuaged cash flow concerns. The promoter also has an option of infusing Rs. 30.0 crore through share warrants anytime in the next 10 months.

**Comfortable capital structure; albeit moderation seen recently** – RSL's debt profile consists of working capital debt. The working capital debt outstanding as on September 30, 2023, stood at Rs. 19.50 crore. The company also raised funds to the tune of Rs. 130.0 crore in Q4 FY2023, which shored up the net worth base against losses. Accordingly, the capital structure remained healthy marked by gearing of 0.2 time and TOL/TNW of 1.0x as on September 30, 2023 (most of the debt consists of lease liabilities). While the working capital debt is likely to increase marginally in the near term, the debt metrics are expected to remain comfortable, going forward.

### Credit challenges

**Longer than expected revival in earnings** – In H1 FY2024, the company reported an operating income of Rs. 266.4 crore (12% YoY growth) with net loss of Rs. 192.6 crore. The losses include a one-time provision on trade receivables and unbilled revenues of Rs. 123.6 crore. ICRA notes that RSL carried out a strategic review of its operations, considering various factors such as project viability, recoverability of old receivables, identification and exiting unprofitable segments, renewed focus on customer profiling, country-specific risks etc., and accordingly provided a one-time provision of Rs. 107.2 crore in Q2 FY2024. With the pick-up in customer order book during H2 FY2023, ICRA expected RSL's revenue and earnings to recover in the current fiscal, given the inherent lead time between order booking and execution. However, the rebound in revenues has been slower than ICRA's expectation, which coupled with the sharp increase in provisioning towards trade receivables and unbilled revenues has resulted in sharp losses in H1 FY2024. ICRA expects the company's performance to improve in the coming quarter following the management's strategy to identify and exit non-value adding segments. Nevertheless, its ability to secure more deals and manage implementation risks is a key monitorable.

**High competitive intensity** – RSL faces intense competition from large established players, which limits its pricing flexibility and puts pressure on its margins.

**Exposure to forex risk** – RSL's profit margins are susceptible to volatility in forex rates and have been impacted by forex gain/(loss) arising from the same in the past. Some of the losses are mark-to-market provisions, which might be reversed subsequently. The company usually tries to mitigate the risk to an extent by timing the receivables from its subsidiaries and repaying the outstanding packing credit (foreign currency) debt using exports proceeds in foreign currency.

**High working capital intensity despite improvement in unbilled revenues** – The company's operations are working capital intensive in nature on account of high debtor days, despite the improvement in unbilled revenues from the one-time

provisioning provided for the same. Further, the management's decision to move to a subscription model across divisions has reduced the quantum of unbilled revenues considerably in the current year.

**High R&D spend** – RSL incurs significant capex every year mainly towards R&D, which is capitalised. This R&D expenditure, if debt-funded, would put some pressure on the capital structure.

**Vulnerable to industry risks such as employee attrition and adverse changes in Government policies** – The company is also exposed to broader IT industry risks such as global demand slowdown, high employee attrition and adverse changes in foreign and domestic Government policies, etc.

## Environment and Social Risks

**Environmental considerations:** The exposure to environmental risks remains low for the IT industry. For industry participants, the primary environmental impact arises from their use of electricity to power systems and use of water resources. RSL has been undertaking initiatives, which are expected to have environmental benefits and improve sustainability of the organisation. Some of them include the reduction of carbon footprint by replacing old generators, air conditioners, lifts, and conventional lights with the latest energy efficient equipment; replacing conventional lights across offices with LED lights; and replacing old sanitary fittings with the latest water conserving fittings and sensor taps.

**Social considerations:** The exposure to social risks is moderate for the IT sector. Given that a sizeable part of the revenue is generated from overseas/international clients and as employees are deployed across multiple geographies, RSL remains exposed to various social risks, such as changes in immigration laws and cyber security issues. This situation could result in increased employee and administration costs and reputational damage to the company. RSL enhances its cyber security by adopting frameworks covering endpoint detection and response (EDR), data level protection (DLP), privileged access management (PAM), zero trust network (ZTN), data encryption at rest and in transit. Data and processes are monitored through security information and event management systems (SIEM) with security governance structure in place. All these supplement the company's existing information security management system (ISMS) and SOC2 Type II controls. RSL's systems are regularly audited every year by reputed third-party agencies to ensure information security for the services offered through SaaS. RSL has defined its data privacy and protection policies that are aligned with the data protection regulations of different countries to ensure data security. The profitability of industry participants, including RSL, remains vulnerable to increase in wage costs. The company has instituted various employee stock option plans (ESOPs) to increase employee commitment and engagement. As part of its business continuity plan, RSL's product development environment is backed up in two different geographies to mitigate seismic and political risks.

## Liquidity position: Adequate

RSL's liquidity is adequate with buffer in working capital limits (against drawing power) of ~Rs. 43.5 crore, and cash and bank balances and bank balances other than cash and cash equivalence of Rs. 25.1 crore as on September 30, 2023. RSL had also prepaid term loans from the proceeds of its fund raise and, hence, does not have any term debt repayment obligations. RSL will continue to spend on R&D for FY2024. Moreover, the promoter, Mr. Venkatrama Raja, has an option to bring in Rs. 30.0 crore by exercising warrants before August 2024. The company enjoys healthy financial flexibility as part of the Ramco Group with a demonstrated track record of financial support.

## Rating sensitivities

**Positive factors** – A upgrade in ratings is unlikely, given the negative outlook on the long-term rating. ICRA could revise the outlook to Stable from Negative if there is sustained improvement in its revenues, earnings and cash flows from operations on the back of healthy order flows and better project implementation.

**Negative factors** – The rating could be downgraded if there is sustained deterioration in the company’s earnings and cash flows, thus weakening its liquidity profile. Any large debt-funded capex in the absence of meaningful improvement in cash accruals could also be a negative rating trigger.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for IT-Services</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Ramco Systems Limited. As on March 31, 2023, the company had 18 subsidiaries and an associate, which are all enlisted in Annexure-2.

## About the company

RSL was initially set up as a division of Ramco Industries Limited in 1989, before being spun off into an independent entity in 1999. Headquartered in Chennai, RSL is a leading cloud-based technology company with global operations. It provides ERP, HCM and aviation maintenance and engineering (M&E) as well as maintenance repair and overhaul (MRO) software to customers across the globe. It is part of the reputed Ramco Group of companies, a business conglomerate with interests in cement, cotton, synthetic yarn, cement software solutions, clean energy, and biotechnology, among others.

## Key financial indicators (audited)

SFPL	FY2022	FY2023
Operating income	531.1	492.2
PAT	(73.0)	-206.9
OPBDIT/OI (%)	0.1%	-27.5%
PAT/OI (%)	-13.8%	-42.0%
Total outside liabilities/Tangible net worth (times)	0.5	0.7
Total debt/OPBDIT (times)	77.9	-0.8
Interest coverage (times)	0.1	-13.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

S. No	Instrument	Current Rating (FY2024)					Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2023 (Rs. crore)	Date & Rating		Date & Rating in FY2022		Date & Rating in FY2020		Date & Rating in FY2019	
					Nov 08, 2023	Jun 30, 2023	March 17, 2022	April 29, 2021	Mar 23, 2020	Apr 08, 2019	April 06, 2018	
1	Cash Credit	Long Term	35.00	-	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	
2	Term loan	Long Term	-	-	-	-	-	-	[ICRA]A- (Positive)	-	-	
3	EPC/PCFC/WCDL	Short Term	137.50	-	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	
4	LC/Bank Guarantees	Short Term	30.50	-	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	
5	Unallocated	Long Term/ Short term	11.50	-	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Positive)/ [ICRA]A2+	-	

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
EPC/PCFC/WCDL	Very Simple
LC/Bank Guarantees	Very Simple
Unallocated	Not Applicable

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	Cash Credit	NA	NA	NA	35.00	[ICRA]BBB+(Negative)
NA	EPC/PCFC/WCDL	NA	NA	NA	137.50	[ICRA]A2
NA	LC/BG	NA	NA	NA	30.50	[ICRA]A2
NA	Unallocated	NA	NA	NA	11.50	[ICRA]BBB+(Negative)/[ICRA]A2

Source: Company

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	RSL Ownership	Consolidation
Ramco Systems Corporation, USA	98%	Full Consolidation
Ramco Systems Ltd, Switzerland	100%	Full Consolidation
Ramco Systems Sdn. Bhd, Malaysia	100%	Full Consolidation
Ramco Systems Pte. Ltd., Singapore	100%	Full Consolidation
RSL Enterprise Solutions (Pty) Ltd., South Africa	100%	Full Consolidation
Ramco Systems Canada Inc., Canada	98%	Full Consolidation
Ramco Systems FZ-LLC, Dubai	100%	Full Consolidation
RSL Software Co. Ltd., Sudan	100%	Full Consolidation
Ramco Systems Australia Pty Ltd., Australia	100%	Full Consolidation
Ramco Systems Inc., Philippines	100%	Full Consolidation
Ramco Systems (Shanghai) Co. Ltd., China	100%	Full Consolidation
Ramco System Vietnam Company Limited, Vietnam	100%	Full Consolidation
PT Ramco Systems Indonesia, Indonesia	100%	Full Consolidation
Ramco Systems Macau Limited, Macau	100%	Full Consolidation
CityWorks (Pty.) Ltd., South Africa	30%	Equity Method
Ramco Software Japan Limited, Japan	100%	Full Consolidation
Ramco Systems Defense and Security Incorporated, USA	98%	Full Consolidation
Ramco Middle East for Information Technology, Saudi Arabia*	100%	Full Consolidation
Ramco System LLC, Qatar*	100%	Full Consolidation

**Source:** RSL financials FY2023; **Note:** ICRA has taken a consolidated view of the parent (RSL), its subsidiaries and associates while assigning the ratings.

\*Investments in the equity of these subsidiaries incorporated during the year, have yet to be made

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For more information, visit [www.icra.in](http://www.icra.in)



## ICRA Limited



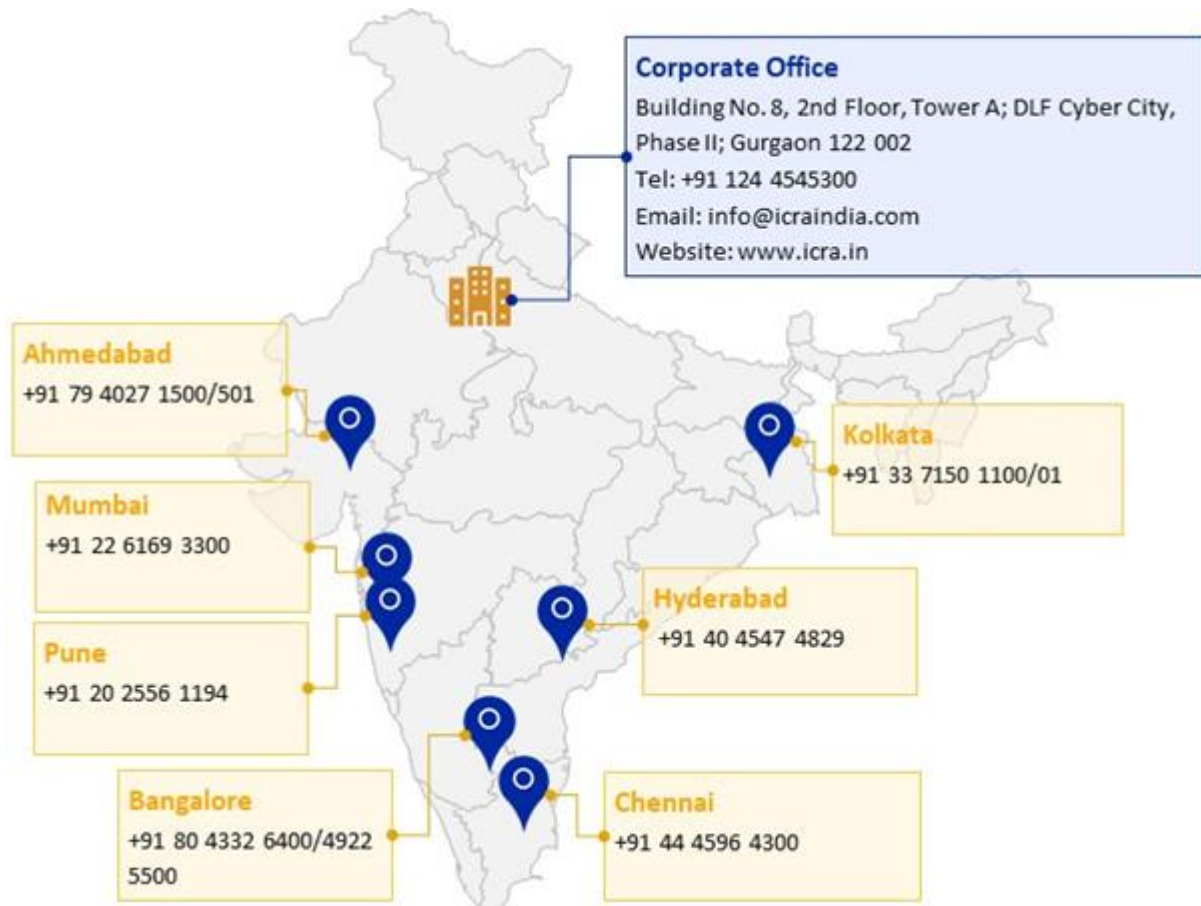
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### Branches



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