

MOLD-TEK TECHNOLOGIES LIMITED
D&B D-U-N-S® NUMBER: 65-025-6217



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Scope of the Report

- History and legal background
- Existing operations
- Management background
- Financial statements and analysis

Information Sources

Information given in this report is compiled on the basis of information obtained from the following sources:

- Annual reports
- Corporate communiqués
- Information available on Mold-Tek Technologies Limited website
- Management discussion

Methodology

Financial information from the audited annual reports of Mold-Tek Technologies Limited was studied and analyzed for a three years period i.e. Financial Year (FY) 2015, FY 2016 and FY 2017. Further, we also collated information from various other sources, as stated above. Lastly, additional clarifications (as deemed necessary) were sought from the management.

Date: 31st July 2017

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SUMMARY

D&B D-U-N-S® NUMBER : 65-025-6217

COMPANY NAME : MOLD-TEK TECHNOLOGIES LIMITED

ADDRESS : Door No: 8-2-293/82/A/700
 Plot 700, Road No. 36
 Jubilee Hills
 Hyderabad - 500 033
 Telangana
 India

TELEPHONE : 91 - 40 - 40300300
 91 - 40 - 40300301
 91 - 40 - 40300302
 91 - 40 - 40300303
 91 - 40 - 40300304

FAX : 91 - 40 - 40300328

WEB PAGE : www.moldtekindia.com
 www.moldtekit.com
 www.moldtekgroup.com

EMAIL : ir@moldtekindia.com
 finance@moldtekindia.com
 info@moldtekindia.com
 sundeep@moldtekgroup.com

D&B RATING : 4A3 CONDITION: Fair

REGISTRATION NUMBER : L25200TG1985PLC005631

START DATE : 4th July 1985

CONTROL DATE : 4th July 1985

HISTORY : Clear

TOTAL EMPLOYEES : 487

IMPORTS : No

EXPORTS : Yes

REVENUESS : INR 558,985 thousand for the year ended 31st March 2017

TANGIBLE NETWORTH : INR 311,863 thousand as on 31st March 2017

AUTHORIZED CAPITAL : INR 130,000 thousand as on 30th June 2017

ISSUED CAPITAL : INR 54,179 thousand as on 30th June 2017

PAID-UP CAPITAL : INR 54,179 thousand as on 30th June 2017

LISTED : Bombay Stock Exchange Limited
 The National Stock Exchange of (India) Limited

CHIEF EXECUTIVE : Lakshmana Rao Janumahanti
 Chairman and Managing Director

LINE OF BUSINESS

The Company is engaged in providing civil, structural and mechanical engineering and information technology services.

Standard Industrial Classification Code (SIC)

8748-0400

Engaged in systems analysis and engineering consulting services

8711-9903

Engaged as consulting engineer

8712-0101

Engaged in architectural engineering

CURRENT INVESTIGATION

On 28th July 2017, Mr. Satya Kishore Nadikatla, Chief Financial Officer and Compliance Officer provided information about the Company during management discussion.

RATING KEY
D&B Rating : 4A3
Condition : Fair

D&B Indicative Risk Rating consists of two parts, the Financial Strength and the Composite Appraisal/Condition. Financial Strength is an indication of the tangible net worth (that is, the shareholder's funds less any intangible assets). The Composite Appraisal / Condition is linked to the level of risk and is an overall evaluation of credit worthiness. It takes into account the financial condition and several factors such as trade reference history, legal structure, management experience and any adverse listings.

D&B Indicative Risk Rating of 4A3 implies that the Company has a tangible networth between INR 129,190,000 and 645,949,999 as per latest available audited financial statements. Composite appraisal 3 indicates that the overall status of the Company is fair.

Risk Indicator	Condition	Level of Risk	Guide to Interpretation
1	Strong	Minimal risk	Proceed with transaction - offer extended terms if required
2	Good	Low risk	Proceed with transaction
3	Fair	Slightly greater than average risk	Proceed with transaction but monitor closely
4	Limited	Significant level of risk	Review each case before extending credit and obtain more information. Take suitable assurance before extending credit, guarantees may be needed
-	Undetermined	Insufficient information to assign a Rating	Assigned to concerns where there is insufficient information to express any opinion on the condition, financial soundness or payment history of the concern. A concern with no telephone number will also be assigned a “-” condition

Financial Strength			Composite Appraisal			
Rating	Tangible Networth (In INR)					
	From	To	Strong	Good	Fair	Limited
5A	645,950,000 and Above		1	2	3	4
4A	129,190,000	645,949,999	1	2	3	4
3A	64,595,000	129,189,999	1	2	3	4
2A	12,919,000	64,594,999	1	2	3	4
A	7,751,400	12,918,999	1	2	3	4
B	3,875,700	7,751,399	1	2	3	4
C	1,219,900	3,875,699	1	2	3	4
D	516,760	1,219,899	1	2	3	4
E	155,028	516,759	1	2	3	4
F	51,676	155,027	1	2	3	4
G	Upto 51675		1	2	3	4
--	Not Classified					

COMPANY PROFILE

Mold-Tek Technologies Limited (hereinafter referred to as ‘the Company’) was incorporated on 4th July 1985 as a private limited company under the name of “Mold-Tek Plastics Private Limited” to manufacture rigid plastic packaging materials. On 24th December 1992, the legal structure was changed to public limited company and consequently the name was changed to Mold-Tek Plastics Limited. The Company came out with an Initial public offer (IPO) in November 1994. The shares of the Company are listed on the Bombay Stock Exchange Limited (BSE). Later, in 2000, it commenced outsourcing services for engineering to overseas clients in the United States of America and European Union. Subsequently, it was renamed as Mold-Tek Technologies Limited. In 2008, it underwent a restructuring process, post which two de-merged listed entities were formed, namely, Mold-Tek Plastics Limited (MTPL), engaged in plastic packaging business and Mold-Tek Technologies Limited (MTTL), which is mainly engaged in offering KPO services for engineering and design services.

It is engaged in providing civil and structural engineering, mechanical engineering and information technology services deriving 80%, 15% and 5% revenue respectively during FY 2017. As informed, it provides civil and structural engineering services in the USA market and mechanical engineering services in Europe market. The Company routes around 90% of its revenue through fully owned subsidiaries based out of USA.

Below is the detailed list of the services provided by the Company:

✓ **Civil & Structural Engineering**

- Structural steel and miscellaneous steel
- Connection design services
- Miscellaneous steel detailing
- Conventional steel structures
- Pre-Engineered metal buildings
- Precast concrete structures
- Residential buildings infrastructure
- Rebar services
- Miscellaneous steel detailing
- Services related to Geographic Information Systems

✓ **Mechanical Engineering Services (MES)**

- Product development
- Product engineering
- Design and CAD support
- Analysis and optimization
- Manufacturing support
- Technical documentation
- Custom software development
- Design automation
- Process engineering

✓ **IT Services**

- Application development
- Cloud based services

✓ **BIM Services**

- 3D modelling
- Model Coordination between Architectural, Structural and MEP
- 2D Drawings and Construction Documentation
- Family creations for various products used by AEC industry
- Architectural Walkthroughs & Rendering
- Structural Steel Fabrication Drawings
- Intelligent Bill of Quantities
- Construction documentation
- Mechanical, electrical and plumbing modelling (MEP)
- Architectural modelling
- Structural modelling

It majorly caters to the international market and derived around 96.81% of its revenues from overseas market in FY 2017. The Company exports its products to Germany, The United States of America and United Kingdom. It mainly caters to infrastructure, oil and gas, power, utilities, automotive, rail transport, aerospace, industrial equipment and telecom sectors.

It controls its activities from its corporate office located at Hyderabad, Telangana. The Company has domestic branch office located at Nasik, Vijayawada and Pune. In addition to the above, branch offices are located at Germany, France, Ireland, Netherlands and United Kingdom. Further, it has an in-house software development team, quality control training and trouble-shooting facilities.

It has two subsidiaries viz. Crossroads Detailing Inc., USA and RMM Global Inc., USA. It is a part of the Mold-Tek group and has a group Company Mold-Tek Packaging Limited.

It is an ISO 9001:2008, ISO 27001:2005 certified company.

Source: Company website, as provided by the management and annual report

FINANCIAL SNAPSHOT

COMPARATIVE FIGURES (INR in thousand)			
Year	2015	2016	2017
Revenue	407,796	477,589	558,985
Net Profit after Tax	58,816	56,709	42,811
Current Assets	196,195	238,406	263,319
Current Liabilities	123,963	117,836	113,653
Working Capital	72,232	120,570	149,666
Other Tangible Assets	179,015	194,399	194,153
Non-Current Liabilities	20,886	37,093	31,956
Tangible Network	230,361	277,876	311,863
Total Borrowings	66,927	83,122	46,063
Cash and Bank	2,113	3,931	2,178
Accounts Receivable	155,168	165,906	187,091
Fixed Assets	168,839	182,600	180,742
Accounts Payable	7,745	6,813	7,793
Inventory	18,621	29,178	14,399

KEY RATIOS			
Year	2015	2016	2017
Gross Profit Margin (%)	45.95	39.41	30.84
Operating Profit Margin (%)	17.32	9.37	5.93
Net Profit Margin (%)	14.42	11.87	7.66
Return on Tangible Network (%)	25.53	20.41	13.73
Return on Capital Employed (%)	28.10	23.69	17.47
Total Debt Equity Ratio (Times)	0.29	0.30	0.15
Interest Coverage Ratio (Times)	10.80	9.06	8.16

Refer Annexure II for details

PURCHASES

Local : 100%

Purchase Terms

Local Terms
Open Account : 30 days

Source: Annual report 2017

REVENUES

Local	: 3.19%
International	: 96.81%

Exports To:

United States of America	: 90%
United Kingdom	: 10%

Sales Terms

Local Terms	
Open Account	: 30 days
Export Terms	
Open Account	: 30-45 days

Source: As provided by the management and annual report 2017

COUNTRY RISK SNAPSHOT

Any firm, entity or individual who conducts cross-border transactions is exposed to country risk, the risk associated with a country's overall political, economic and commercial performance. **D&B's Country Risk Indicator (DCRI)** provides a comparative, cross-border assessment of the risk of doing business in a country. Essentially, the **DCRI** seeks to encapsulate the risk that country-wide factors pose to the predictability of export payments and investment returns over a time horizon of two years. The **DCRI** comprises a composite index of four overarching country risk categories:

- a) Political Risk
- b) Commercial Risk
- c) Macroeconomic Risk
- d) External risk

The **DCRI** is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

DCRI	Degree of Risk	Explanation
DB1	Lowest Risk	Lowest degree of uncertainty associated with expected returns, such as export payments and foreign debt and equity servicing.
DB2	Low Risk	Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.
DB3	Slight Risk	Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.
DB4	Moderate Risk	Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.
DB5	High Risk	Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.
DB6	Very High Risk	Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.
DB7	Highest Risk	Returns are almost impossible to predict with any accuracy. Business infrastructure has, in effect, broken down.

The **DCRI** is supplemented with a rating trend, which encapsulates whether the risk environment in a country is improving, deteriorating or stable.

Improving	↑	Indicates that the country's overall risk profile is improving as a result of favourable political, commercial, economic and / or external developments.
Deteriorating	↓	Indicates that the country's overall risk profile is deteriorating owing to adverse political, commercial, economic and / or external developments.
Stable	↔	Indicates that the country's overall risk has not changed appreciably, even though some minor changes to its political, commercial, macro-economic, and / or external risk environment may have occurred.

Exports Destination: DCRI Trend

Exports Destination	% of Exports	DCRI Trend		Headline News
United Kingdom	10.00%	Deteriorating	↓	In a surprise move, the government calls a snap election for 8 June.
United States of America	90.00%	Stable	↔	GDP growth gets off to a slow start in Q1 2017.

Source: D&B Country Risk Services (May 2017)

CUSTOMERS

The Company maintains around 100 customers.

Major Customer Types

- ✓ Industrial
- ✓ Civil construction
- ✓ Oil and Gas
- ✓ Telecommunication
- ✓ Information Technology

Major Customer Names

Name of Customer	Country	Length of relationship (in years)
Crossroads Detailing Inc	United States of America	14
Rmm Global Inc	United States of America	6
Union Metal Corporation	United States of America	4
Willy-Naessens Industriebuow	Belgium	4

Note: Crossroads Detailing Inc. and RMM Global Inc. are fully owned subsidiaries of the Company and Company routes 90% of its revenues via these subsidiaries

Source: As provided by the management

SUPPLIERS

Name of Suppliers	Country	Length of relationship (in years)
Star Global Currency Exchange Private Limited	India	3
Gowra Bits & Bytes	India	3
Tekla India Private Limited	India	1.10
Sri Lakshmi narasimha Constructions	India	2
3d Engineering Automation LLP	India	1.9

Source: As provided by the management

FOREIGN EXCHANGE TRANSACTIONS

(INR in thousand)

Particulars	FY 2015	FY 2016	FY 2017
Total Expenditure in Foreign Currency			
Travelling	16,390	13,543	6,980
FOB Value of Exports	398,802	463,437	541,149

Source: Annual Reports

EMPLOYEES

Employees (At Head Office Location) : 487

Source: As provided by management

REGISTRATION DETAILS

LEGAL STRUCTURE	: Public Limited Company
INCORPORATED	: 4 th July 1985
REGISTRATION BODY	: Registrar of Companies
REGISTRATION NUMBER	: L25200TG1985PLC005631 Hyderabad, Telangana India
REGISTERED OFFICE	: Door No: 8-2-293/82/A/700 Plot 700, Road No. 36 Jubilee Hills Hyderabad - 500 033 Telangana India
LAST AGM DATE	: 19 th September 2016
LAST ANNUAL RETURN DATE	: 17 th October 2016
LAST FINANCIAL STATEMENT DATE	: 31 st March 2017

Source: MCA and as provided by the management

CHANGE IN LEGAL NAME

ORIGINAL NAME	: Mold-Tek Plastics Private Limited
CHANGED TO	: Mold-Tek Plastics Limited
DATE OF CHANGE	: 24 th December 1992
CHANGED TO	: Mold-Tek Technologies Limited
DATE OF CHANGE	: 17 th February 2000

Source: As provided by the management

CHANGE IN LEGAL STRUCTURE

FORMER LEGAL STRUCTURE	: Private Limited Company
CHANGE	: Conversion from a private limited Company to a Public limited Company
DATE OF CHANGE	: 24 th December 1992
STARTED	: 4 th July 1985

CAPITAL DETAILS

AUTHORIZED CAPITAL *	: INR 130,000 thousand as on 30 th June 2017
ISSUED CAPITAL	: INR 54,179 thousand as on 30 th June 2017
PAID-UP CAPITAL	: INR 54,179 thousand as on 30 th June 2017
ORDINARY SHARES	: 27,089,307 equity shares at par value of INR 2 each

** includes 65,000,000 equity shares of INR 2 each*

Source: BSE Website and MCA

STOCK EXCHANGES

The Company's shares are listed on the following Stock Exchanges:

- ✓ Bombay Stock Exchange Limited
- ✓ The National Stock Exchange of (India) Limited

Source: Annual Reports 2016 & BSE

SHAREHOLDING PATTERN

Particulars		Shares held	% Held
A	Shareholding of promoter and promoter group:		
	Mold-Tek Packaging Limited	2,117,165	7.82
	Sudha Rani Janumahanti	2,002,523	7.39
	Subramanyam Adivishnu	1,765,090	6.52
	Other Promoter and Promoter Group	7,502,030	27.69
	Sub Total (A)	13,386,808	49.42
B	Public shareholding:		
	Institutions		
	Foreign Institutional Investors	650,275	2.40
	Non institutions		-
	Bodies corporate	2,974,332	10.98
	Individuals		-
	Individual shareholders holding nominal share capital up to INR 2 Lakh	6,072,321	22.42
	Individual shareholders holding nominal share capital in excess of INR 2 Lakh	3,798,149	14.02
	Any others		-
	Clearing members	33,063	0.12
	Non-resident Indians	174,359	0.64
	Sub Total (B)	13,702,499	50.58
	Total (A + B)	27,089,307	100.00

Total number of shareholders : 6,493

Shareholding as on : 30th June 2017

Source: BSE Website

AUDITORS

Statutory Auditors

Praturi & Sriram
(Chartered Accountants)

1-9-3 & 1-9-9 /6
Street No. 1, Ramnagar
Hyderabad - 500 020
Telangana
India

Internal Auditors

GMK Associates
(Chartered Accountants)

607, Raghava Ratna Towers
Chirag Ali Lane
Hyderabad - 500 001
Telangana
India

Secretarial Auditors

P.Vijaya Bhaskar & Associates
(Practising Company Secretaries)

H.No.6-3-596/90
Naveen Nagar, Road No.1
Banjara Hills
Hyderabad – 500 034
Telangana
India

Source: Annual report 2016

REGISTRAR AND SHARE TRANSFER AGENTS

M/s. XL Softech Systems Limited

3 Sagar Society Road No 2
Banjara Hills
Hyderabad - 500 034
Telangana
India

Source: Annual report 2016

CORPORATE DIRECTORS

Name of Directors	Current Title
Lakshmana Rao Janumahanti	Chairman and Managing Director
Sudharani Janumahanti	Whole-time Director
Venkateswara Rao Pattabhi	Non -Executive Promoter Director
Subrahmanyam Adivishnu	Non -Executive Promoter Director
Srinivas Madireddy	Non-Executive Independent Director
Vasantkumar Roy Chintamaneni	Non-Executive Independent Director
Venkata Appa Rao Kotagiri	Non-Executive Independent Director
Shyam Sunder Rao Pillarisetty	Non-Executive Independent Director
Dr. Suryaprakash Gulla	Non-Executive Independent Director

Source: Annual report, MCA and as provided by management

Refer Annexure I for details

EXECUTIVES

Name of Executives	Current Title
Prasad Raju K	Senior Executive Vice President
Pradeep Gopalraj	Vice President-Delivery
Gajanan Deshmukh	General Manager - Projects
P. Srinivas	Deputy General Manager- Design
Rana Pratap J	Corporate Manager- NBD
Sundeeep Adivishnu	Chief Manager- IT Division
Kesava Gollapalli	Vice President – IT Division
Jagdish T	Practice Head- IT Division
Kavya Sarraju	Manager- Marketing
Satish Chandra Kalaga	Deputy General Manager- Delivery
Jaya Prakash	Assistant General Manager- BD (Europe)
Jagan Mohan Raju	Business Development Manager (UK)
Satya Kishore Nadikatla	Chief Financial Officer & Compliance Officer
Pooja Jain	Company Secretary
Rajeev Kumar Ch	Assistant General Manager- HRD
Satya Reddy	Head Purchase, Materials
Jagdish TVSSB	Head - Practice
A Durga Sundeeep	Chief Manager
Pagudoji Srinivas	Assistant General Manager
N.Madhu	Assistant General Manager
Biswajit Dash	Deputy General Manager
Jim Butler	Executive Vice President – Global Operations
Dr. Azimi	Assistant Vice President - IT S&S

Source: MCA & Annual report, Company website and as provided by the management

BANK

The Company also has banking relationship with the following bank:

Name : ICICI Bank Limited

Address : 4th Floor, Plot no 12
ICICI Bank Towers
SMEAG Department
Financial District
Gachibowli – 500 032
Hyderabad
India

The Company also have banking relations with Citi Bank.

Note: No independent confirmation was received from the bank

INSURANCE

The Company has taken insurance coverage on its assets from Tata AIG General Insurance Company Limited.

Source: As provided by the management

HEAD OFFICE LOCATION DETAILS

SIZE OF PREMISE : 39,370 Square feet
TYPE OF OCCUPATION : Owned
PREMISES USED AS : Administrative Office

Source: As provided by the management

FORMER REGISTERED OFFICE

White House, 402/1, 4th Floor, Kundanbagh
6-3-1192/1/1, Begumpet
Hyderabad
Andhra Pradesh
India

Date of Change : 30th August 2008

Source: MCA

BRANCHES

Address	Location Type	Type of Occupation	Size of Premises (Square Feet)
Heinrich Lanz Ring 41a 68519 Viernheim Germany	Branch Office	-	-
Unit 7, 5 th Floor, Mangal Plaza, Above Sakhlas Furniture Mall, Near Kalika Mandir, Old Mumbai Agra Road, Nasik- 422002 Maharashtra India	Branch Office	Leased	209
Mold-Tek Technologies Limited(Niederlassung Deutschland) Lyoner Strasse 14, D-60528, Frankfurt Germany	Branch Office	Rented	75
South Cheetham Business Centre, 10 Park Place, Manchester, M4 4EY United Kingdom	Branch Office	-	-
Devonshire House, 60 Goswell Road, London	Branch Office	Rented	-
#54-15-14/1, 4 th Floor Sai Prabha Complex Srinagar Service Road, Bharathi Nagar Vijayawada – 520 008 Andhra Pradesh India	Branch Office	-	-
Unit 301, 3 rd Floor Zenith Complex Shivaji Nagar Pune - 411 005 Maharashtra India	Branch Office	-	-
1205 Peachtree Pkwy., Suite #1202 Cumming GA 30041 United States of America	Branch Office	-	-
39 Brooklawn Ave., Norwalk CT 06854 United States of America	Branch Office	-	-

2841 Riviera Dr., Suite#306 Akron, OH 44333 United States of America	Branch Office	-	-
P.O. Box 540 Kiowa, CO 80117 United States of America	Branch Office	-	-
LyonerStrasse 14, D- 60528, Frankfurt, Germany	Branch Office	-	-
6319 East US Highway 36, Suite 4 Avon, Indiana 46123 United States of America	Branch Office	-	-

Source: As provided by management and annual report

SUBSIDIARIES

Name of the Subsidiary	Address	% Held
Crossroads Detailing, Inc.	6319 East US HWY 36, Suite #4, Avon, IN 46123 United State of America	100
RMM Global, Inc.	2541 Riviera Drive Suite 306, Akron, OHIO 44333 United State of America	100

Source: Annual Report 2016

GROUP ENTITIES

Name of Entity	Legal Structure	Line of Business	Key Financials as on 31 st March 2017			Total Debt Equity (Times)	Return on Networth (%)
			INR in thousand				
			Revenue	Profit / (Loss) after Tax	Networth		
Mold-Tek Packaging Limited	Public Limited Company	Manufacturing of grid plastic packaging pails	2,987,733	269,907	1,437,966	0.29	18.77%
RMM Global LLC	-	-	-	-	-	-	-

Source: Annual Report 2017

STATUTORY REGISTRATION

✓ Permanent Account Number : AABCM9845R

Source: As provided by management

ISO CERTIFICATION

- ✓ The Company has received an ISO 27001:2013 certificate for Information Security Management System.

Certificate number : IND15.1286U*
 Valid from : 10th December 2012
 Valid till : 9th December 2018

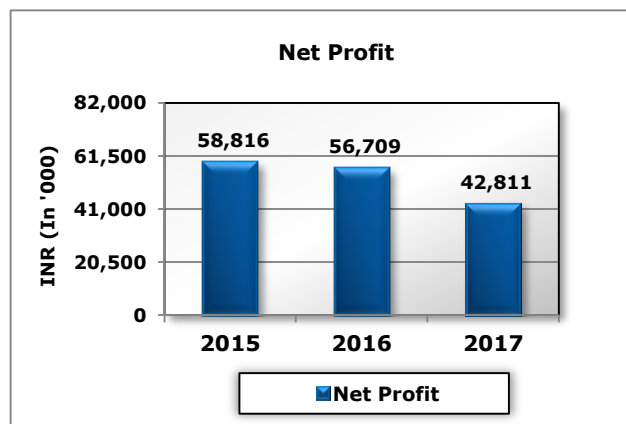
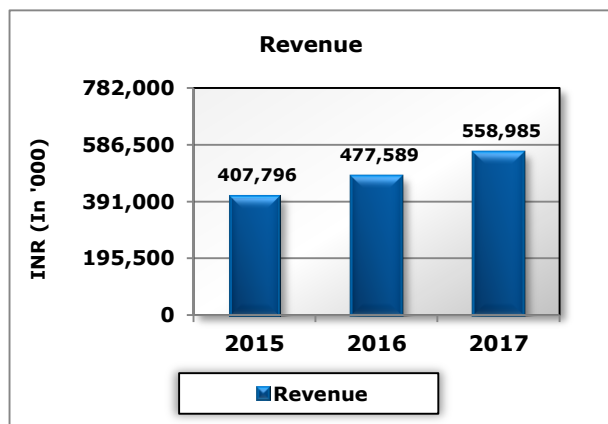
- ✓ The Company has received an ISO 9001:2008 certification for Quality Management System.

Certificate number : IND15.3883/A/Q
 Valid from : 28th March 2009
 Valid till : 27th March 2018

**Note: Physical copy was not available for verification
 Source: As provided by management*

FINANCIAL ANALYSIS

➤ **Revenue and Net Profit**



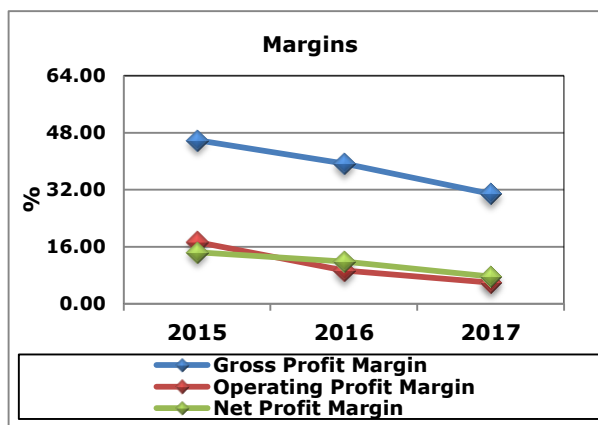
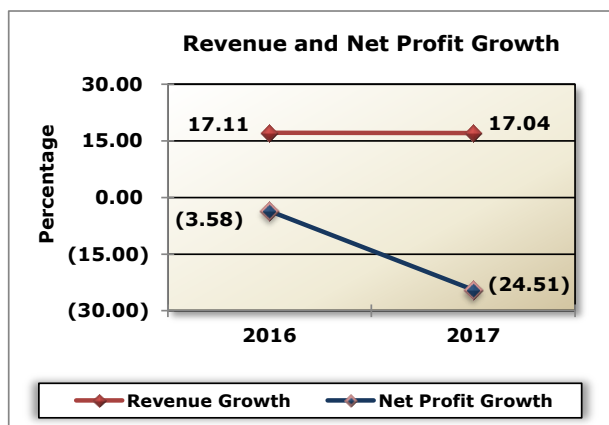
Revenue of the Company depicted an increasing trend during the review period. It improved by 17.11% in FY 2016 and further by 17.04% in FY 2017 due to increase in revenue from existing customers.

Geographical Bifurcation of revenue

Particulars	FY 2015		FY 2016		FY 2017	
	Amount (INR in thousand)	% of Total Revenue	Amount (INR in thousand)	% of Total Revenue	Amount (INR in thousand)	% of Total Revenue
Domestic Sales	8,994	2.21	14,152	2.96	17,836	3.19
Export Sales	398,802	97.79	463,437	97.04	541,149	96.81
Total*	407,796	100.00	477,589	100.00	558,985	100.00

**Inclusive of excise duty*

Profit



Gross Profit Margin

Gross profit margin of the Company exhibited a declining trend during the review period.

It declined from 45.95% in FY 2015 to 39.41% in FY 2016 and further to 30.84% in FY 2017 on account of an increase in salaries and wages as a percentage of revenue from 51.7% to 59.14% and further to 67.79%.

Operating Profit Margin

Operating profit margin of the Company declined from 17.32% in FY 2015 to 9.37% in FY 2016 as a result of a decline in gross profit margin coupled with an increase in general and administration expenses as a percentage of revenue from 18.05% to 20.34% (majorly contributed by repairs and maintenance and professional and legal fees) and an increase in provision for bad debts as a percentage of revenue from 3.1% to 4.2%. This decline was partly counterbalance by a decline in depreciation / amortization and depletion as a percentage of revenue from 5.82% to 4.16%.

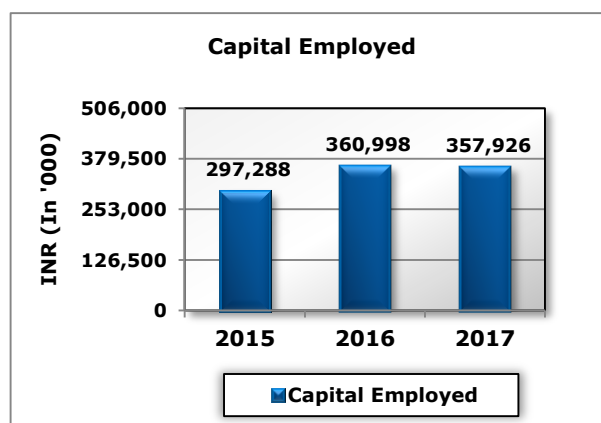
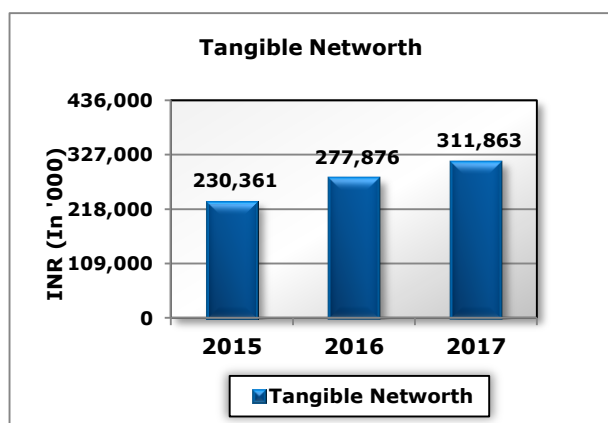
It declined further to 5.93% in FY 2017 as a result of a decline in gross profit margin along with loss on foreign exchange transactions constituting 1.21% as a percentage of revenue. This decline was partly offset by an increase in other operating income forming 3.56% as a percentage of revenue and a decline in general and administration expenses as a percentage of revenue from 20.34% to 16.8% (majorly contributed by staff welfare expenses, repairs and maintenance, director’s remuneration and professional and legal fees).

Net Profit Margin

Net profit margin of the Company declined from 14.42% in FY 2015 to 11.87% in FY 2016 as a result of a decline in operating profit margin. This decline was partly compensated by an increase in other non-operating income as a percentage of revenue from 3.16% to 8.53% (majorly profit on sale of fixed asset and profit on foreign exchange transactions).

It declined further marginally to 7.66% in FY 2017 as a result of a decline in operating profit margin and decline in other non-operating income as a percentage of revenue from 8.53% to 5.26%.

➤ **Tangible Network and Capital Employed**



Tangible network

Tangible network includes equity capital, reserves and surplus less intangible assets, miscellaneous expenditure and accumulated losses, if any.

It increased in both FY 2016 and FY 2017 owing to issue of equity shares and retention of profits in the business by the Company. Retention ratio was 54.91% in FY 2016 and 54.21% in FY 2017.

Capital employed

Capital employed comprises tangible network and total debt.

It increased in FY 2016 owing to an increase in both tangible network and total debt of the Company. However, it declined in FY 2017 as a result of a decline in total debt, despite, a growth in tangible network of the Company.

Total debt of the Company increased in FY 2016 due to an increase in long term bank loans. It was partly offset by a repayment of long term hire purchase loans and short term bank loans. However, it declined in FY 2017 owing to underutilization of working capital limits and part repayment of long term bank loans, and long term hire purchase loans.

Composition of Sources of Funds

(In Percentage)

Particulars	FY 2015	FY 2016	FY 2017
Tangible Network	77.49	76.97	87.13
Total Debt	22.51	23.03	12.87
Capital Employed	100	100	100

Composition of Borrowed Funds

(In Percentage)

Particulars	FY 2015	FY 2016	FY 2017
Short Term Loans	94.46	75.56	68.59
Long Term Loans	5.54	24.44	31.41
Total Debt	100	100	100

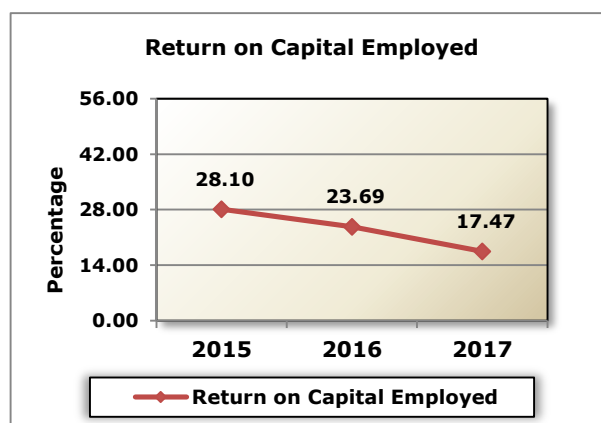
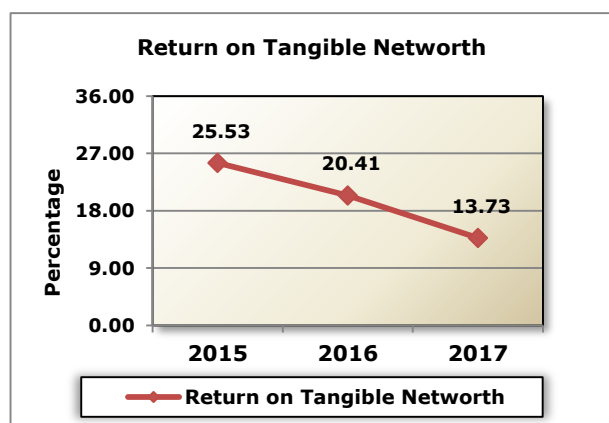
Composition of Borrowed Funds

(In Percentage)

Particulars	FY 2015	FY 2016	FY 2017
Secured Loan	100.00	100.00	100.00
Unsecured Loan	-	-	-
Total Debt	100	100	100

Long term loans comprised of long term hire purchase loans, bank loans and short term loans comprised of bank loans.

➤ Return on Tangible Network and Return on Capital Employed



Return on tangible network exhibited a declining trend during the period under review. It declined in both FY 2016 and FY 2017 due to a drop in net profit coupled with a growth in tangible network of the Company.

(In Percentage)

Particulars	FY 2016	FY 2017
(Decline) in Profit	(3.58)	(24.51)
Increase in Tangible Network	20.63	12.23

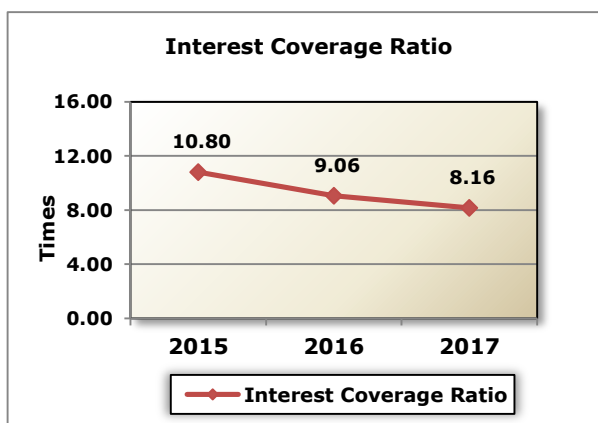
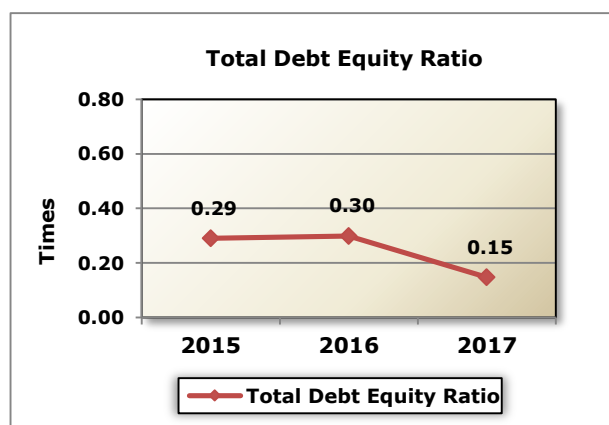
Return on capital employed exhibited a declining trend during the period under review. It declined in FY 2016 due to an increase in capital employed being more than an increase in Earnings before Interest and Tax (EBIT) and in FY 2017 on account of a decline in EBIT being more than a decline in capital employed by the Company.

(In Percentage)

Particulars	FY 2016	FY 2017
Increase / (Decline) in EBIT	2.37	(26.86)
Increase / (Decline) in Capital Employed	21.43	(0.85)

Particulars	FY 2015	FY 2016	FY 2017
Interest Expenses (INR in thousand)	7,733	9,436	7,665
Average Total Debt (INR in thousand)	-	75,025	64,593
Average Cost of Borrowed Funds (%)	-	12.58	11.87
Return on Capital Employed (%)	28.10	23.69	17.47

➤ Total Debt Equity Ratio and Interest Coverage Ratio



Total debt equity ratio is calculated as total debt divided by tangible network.

Debt equity ratio of the Company exhibited an uneven trend during the period under review. It increased marginally from 0.29 times in FY 2015 to 0.3 times in FY 2016, however, it declined to 0.15 times in FY 2017.

It increased in FY 2016 due to an increase in total debt being more than an increase in tangible network and declined in FY 2017 as a result of an increase in tangible network coupled with a decline in total debt of the Company

(In Percentage)

Particulars	FY 2016	FY 2017
Increase in Tangible Network	20.63	12.23
Increase / (Decline) in Total Debt	24.20	(44.58)

Interest coverage ratio indicates the adequacy of EBIT of the Company to cover its interest obligations.

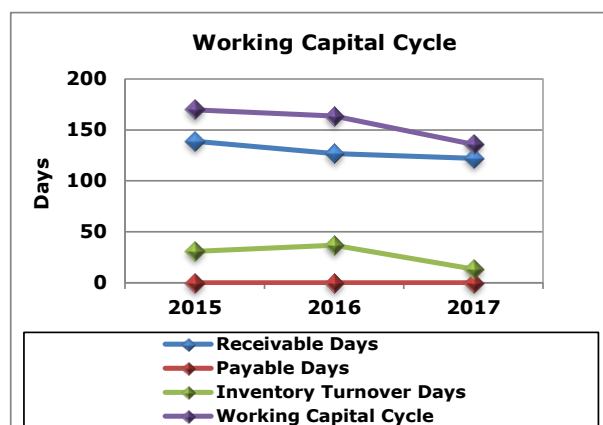
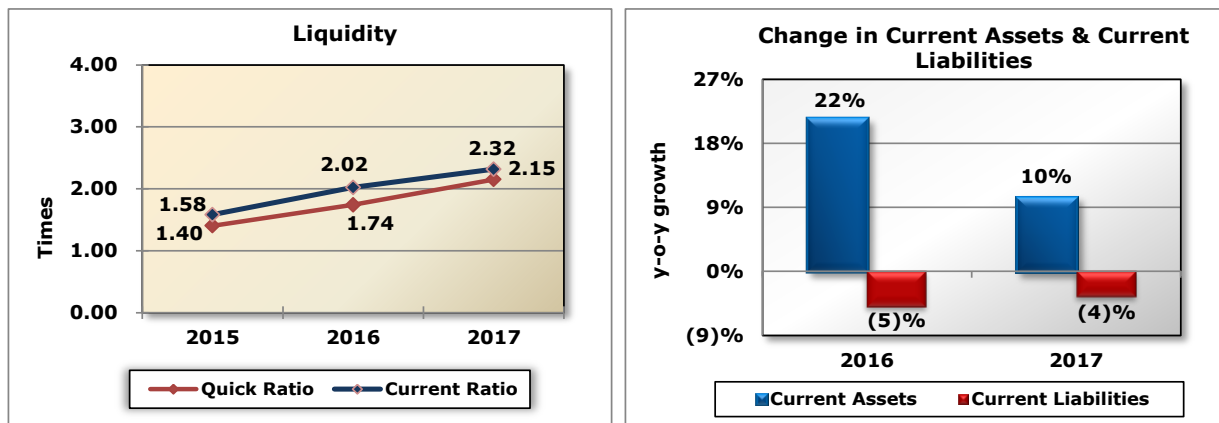
Interest coverage ratio of the Company exhibited a declining trend during the period under review. It decreased from 10.8 times in FY 2015 to 9.06 times in FY 2016; and further to 8.16 times in FY 2017.

It declined in FY 2016 due to an increase in interest expense being more than an increase in EBIT and in FY 2017 due to a decline in EBIT of the Company being more than a decline in interest expense.

(In Percentage)

Particulars	FY 2016	FY 2017
Increase / (Decline) in Interest Expense	22.02	(18.77)
Increase / (Decline) in EBIT	2.37	(26.86)

➤ Liquidity Ratios



Composition of current assets and current liabilities is as given below:

Composition of Current Assets

(In Percentage)

Particulars	FY 2015	FY 2016	FY 2017
Accounts Receivable	79.09	69.59	71.05
TDS and Advance Tax	2.71	10.54	9.43
Other Current Assets	1.47	1.21	8.79
Inventory	9.49	12.24	5.47
Other Loans and Advances	3.63	2.40	2.05
Other Current Assets	3.61	4.03	3.20
Total	100	100	100

Other current assets comprised of prepayments, cash and bank and current investments.

Composition of Current Liabilities

(In Percentage)

Particulars	FY 2015	FY 2016	FY 2017
Bank Loans	51.00	53.30	27.80
Other Payables / Accruals	17.29	17.54	26.41
Provision for Dividends	16.83	5.42	17.20
Provision for Retirement Benefits	3.13	8.75	11.37
Accounts Payable	6.25	5.78	6.86
Current Portion of Long Term Debt	0.72	4.96	5.01
Other Current Liabilities	4.78	4.25	5.36
Total	100	100	100

Other current liabilities comprised of duties and taxes payable, unclaimed / unpaid dividends and creditors for capital goods.

ANNEXURE I - CORPORATE DIRECTORS

Name	: Lakshmana Rao Janumahanti
Address	: H No: 8-2-293/82/A/321/K Plot No 321-K, Road No 26 Jubilee Hills Hyderabad - 500 034 Telangana India
Date of Birth	: 19 th April 1959
Director Identification Number	: 00649702
Current Title	: Chairman and Managing Director
Started with the Company	: 4 th July 1985
Appointed to Present Position	: 4 th July 1985
Education	: Bachelor of Technology (Civil) Master of Business Administration from IIM-B
Active in Daily Operations	: Yes
Founder of Subject	: Yes

Name	: Sudharani Janumahanti
Address	: H. No 321 K, Road No 26 Jubilee Hills Hyderabad – 500 034 Telangana India
Date of Birth	: 25 th August 1964
Director Identification Number	: 02348322
Current Title	: Director
Started with the Company	: 1 st October 2008
Appointed to Present Position	: 27 th August 2008
Education	: Bachelor of Science
Active in Daily Operations	: Yes
Founder of Subject	: No

Name	: Venkateswara Rao Pattabhi
Address	: H.No.7-1-214/4/1, 2 And 3 Dharamkaran Road, Ameerpet Hyderabad - 500 016 Telangana India
Date of Birth	: 18 th January 1957
Director Identification Number	: 01254851
Current Title	: Non – Executive Promoter Director
Started with the Company	: 30 th September 1994
Appointed to Present Position	: 30 th September 1994
Education	: Post Graduate in Material Management
Active in Daily Operations	: No
Founder of Subject	: No

Name	: Subrahmanyam Adivishnu
Address	: H. No. 8-2-268/V/20, 20/A Banjara Hills Hyderabad - 500 034 Telangana India
Date of Birth	: 8 th July 1954
Director Identification Number	: 00654046
Current Title	: Non – Executive Promoter Director
Started with the Company	: 4 th July 1985
Appointed to Present Position	: 25 th September 2006
Education	: Bachelor of Engineering (Mechanical) Diploma in Mould Design & Manufacturing
Active in Daily Operations	: No
Founder of Subject	: Yes

Name	: Srinivas Madireddy
Address	: Hig No.29, Phase: IX K.P.H.B.Colony, Kukatpally Hyderabad-500072 Telangana India
Date of Birth	: 13 th May 1966
Director Identification Number	: 01311417
Current Title	: Non – Executive Independent Director
Started with the Company	: 27 th August 2008
Appointed to Present Position	: 27 th August 2008
Education	: Bachelor of Engineering (Mechanical)
Active in Daily Operations	: No
Founder of Subject	: No

Name	: Vasantkumar Roy Chintamaneni
Address	: 501, Padmaja Paradise 44, Srinagar Colony Hyderabad - 500 073 Telangana India
Date of Birth	: 3 rd November 1958
Director Identification Number	: 01102102
Current Title	: Non – Executive Independent Director
Started with the Company	: 29 th March 2003
Appointed to Present Position	: 29 th March 2003
Education	: Master of Business Administration
Active in Daily Operations	: No
Founder of Subject	: No

Name	: Venkata Appa Rao Kotagiri
Address	: Bobbili Eye Hospital Hospital Road, Bobbili Vizianagaram Dist Bobbili-535558 Andhra Pradesh India
Date of Birth	: 10 th April 1959
Director Identification Number	: 01741020
Current Title	: Non – Executive Independent Director
Started with the Company	: 31 st January 2001
Appointed to Present Position	: 31 st January 2001
Education	: Bachelor of Medicine and Bachelor of Surgery Doctor of Oriental Medicine
Active in Daily Operations	: No
Founder of Subject	: No

Name	: Shyam Sunder Rao Pillarisetty
Address	: H. No. 1-3-183/40/149 Sri Lakshmi Nilayam Thallabasti Secunderabad-500080 Telangana India
Date of Birth	: 21 st January 1941
Director Identification Number	: 01770064
Current Title	: Non – Executive Independent Director
Started with the Company	: 21 st April 1998
Appointed to Present Position	: 21 st April 1998
Education	: Bachelor of Commerce A.C.A. (Associate Member of the Institute of Chartered Accountants) A.C.S. (Associate Member of the Institute of Company Secretaries Of India)
Active in Daily Operations	: No
Founder of Subject	: No

Name	: Dr. Suryaprakash Gulla
Address	: 12-13-1241, Street No-8 Bs Andhra Bank Lane, Tarnaka Secunderabad-500007 Telangana India
Date of Birth	: 1 st July 1959
Director Identification Number	: 02891694
Current Title	: Non – Executive Independent Director
Started with the Company	: 1 st January 2010
Appointed to Present Position	: 1 st January 2010
Education	: Doctor of Medicine
Active in Daily Operations	: No
Founder of Subject	: No

Source: MCA and as provided by the management

ANNEXURE II – FINANCIAL STATEMENTS

Fiscal Balance Sheet as on 31st March 2017 (INR in thousand)			
Cash and Bank	2,178	Accounts Payable	7,793
Inventory	14,399	Bank Loans	31,593
Accounts Receivable	187,091	Current Portion of Long-Term Debt	5,694
Prepayments	4,477	Other Payables / Accruals	34,549
Loans and Advances	5,408	Provision Dividends	19,547
Investments	1,773	Provisions	12,928
Other Current Assets	23,149	Due to Directors / Shareholders	1,549
TDS and Advance Tax	24,844		
TOTAL CURRENT ASSETS	263,319	TOTAL CURRENT LIABILITIES	113,653
Land and Buildings	122,573	Loans Hire Purchase	1,970
Leasehold Improvements	1,098	Bank Loans	12,500
Plant and Equipment	6,200	Deferred Taxation	8,709
Transportation Vehicles	3,669	Provisions	14,145
Furniture, Fixtures and Fitting	11,532	Deposits	326
Office Equipment	8,333	Current Portion of Long-Term Debt	(5,694)
Computers	27,337		
TOTAL FIXED ASSETS	180,742	TOTAL NON-CURRENT LIABILITIES	31,956
Investment in Subsidiary	2,459	Capital	54,139
TOTAL INVESTMENTS	2,459	Capital Reserves	31,701
Long-Term Deposit	10,608	General Reserves	27,826
Other Assets	344	Reserves	15,111
TOTAL OTHER ASSETS	10,952	Share Premium	140,874
Software	29,243	Retained Earnings	71,455
TOTAL INTANGIBLES	29,243	TOTAL EQUITY	341,106
TOTAL ASSETS	486,715	TOTAL LIABILITIES AND EQUITY	486,715

Profit and Loss Account (Figures in INR thousand)			
For the year ended	31-Mar-15	31-Mar-16	31-Mar-17
Number of months	12	12	12
	Fiscal	Fiscal	Fiscal
Revenue	407,796	477,589	558,985
Less: Cost of Revenue	(220,402)	(289,364)	(386,594)
Gross Profit	187,394	188,225	172,391
Other Operating Income*	-	-	19,906
General Operating Expenses	(93,021)	(123,607)	(133,998)
Depreciation	(23,740)	(19,860)	(25,171)
Net Operating Profit after Depreciation and before Interest	70,633	44,758	33,128
Other Non-Operating Income**	12,905	40,757	29,419
Total Finance Expenses	(7,733)	(9,436)	(7,665)
Net Profit before Tax	75,805	76,079	54,882
Less Prior Period Expenditure	-	-	287
Net Profit before Taxation and after Extraordinary Items	75,805	76,079	55,169
Income Tax	(16,989)	(19,370)	(12,358)
Net Profit after Tax	58,816	56,709	42,811
Extraordinary Items : Others	(7,617)	-	-
Profit after Tax and Extraordinary Items	320,463	324,069	308,236
Less: Transfer to Reserves	(5,120)	(5,672)	(4,281)
Less: Dividend	(20,856)	(25,568)	(19,603)
Prior Year Adjustments	(11,344)	-	-
Plus Retained Earnings B/F	13,180	27,059	52,528
Retained Earnings C/F	27,059	52,528	71,455

* Other operating income consists of SEIS incentives

**Other non-operating income consists of lease rent and hire charges, liabilities and provisions written back, profit on sale of fixed assets, profit on foreign exchange transactions and miscellaneous income

Observation as per the Auditor’s report for the year ended 31st March, 2017:

- The Auditors informed that no physical verification of fixed assets has been carried out by the management during the year ended 31st March, 2017.
- According to the information and explanations given to auditor, there are no material dues of wealth tax, duty of customs and cess which have not been deposited with the appropriate authorities on account of any dispute. However, according to information and explanations given to auditor, the following dues of income tax, sales tax, service tax and value added tax have not been deposited by the Company on account of disputes:

(INR in thousand)

Name of the Statute	Nature of Dues	Disputed tax amount	Period to which the amount relates	Forum where dispute is pending
Income Tax	TDS on payment made to purchase of software permanent use licenses	717	AY 2007-08	ITAT
Income Tax	TDS on payment made to purchase of software permanent use licenses	1,709	AY 2008-09	ITAT
Income Tax	TDS on payment made to purchase of software permanent use licenses	827	AY 2009-10	ITAT
Income Tax	TDS on payment made to purchase of software permanent use licenses	431	AY 2010-11	ITAT

Contingent Liabilities and Commitments:

(INR in thousand)

Sr. No.	Particulars	31 st March 2017	31 st March 2016
1.	Contingent Liabilities:		
	Income Tax Department	3,683	3,683
	Total	3,683	3,683

Source: Annual Report 2017

Observation as per the Auditor’s report for the year ended 31st March, 2016:

- The Auditors informed that no physical verification of fixed assets has been carried out by the management during the year ended 31st March, 2016.
- According to the information and explanations given to auditor, there are no material dues of wealth tax, duty of customs and cess which have not been deposited with the appropriate authorities on account of any dispute. However, according to information and explanations given to auditor, the following dues of income tax, sales tax, service tax and value added tax have not been deposited by the Company on account of disputes:

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Income Tax	TDS on payment made to purchase of software permanent use licenses	827	AY 2009-10	ITAT
Income Tax	TDS on payment made to purchase of software permanent use licenses	431	AY 2010-11	ITAT

Source: Annual Report 2016

Observation as per the Auditor’s report for the year ended 31st March, 2015:

- The Auditors informed that no physical verification of fixed assets has been carried out by the management during the year ended 31st March, 2015.
- Certain areas /procedures and control weaknesses identified during the course of internal/statutory audit and other reviews need to be considered for improvement and up-gradation to better levels.
- While auditors have not observed any continuing failure of intent to correct identified weaknesses in internal controls during the course of their audit, observations made need to be comprehensively addressed and rectified.
- Details of dues of Income-tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty and Cess which have not been deposited as at 31st March, 2015 on account of disputes are given below:

(INR in thousand)

Name of the Statute	Nature of Dues	Disputed tax amount	Period to which the amount relates	Forum where dispute is pending
Income Tax	TDS on payment made to purchase of software permanent use licenses	717	AY 2007-08	ITAT
Income Tax	TDS on payment made to purchase of software permanent use licenses	1,709	AY 2008-09	ITAT
Income Tax	TDS on payment made to purchase of software permanent use licenses	827	AY 2009-10	ITAT
Income Tax	TDS on payment made to purchase of software permanent use licenses	431	AY 2010-11	ITAT

Source: Annual Report 2015

KEY RATIOS			
	FY 2015	FY 2016	FY 2017
GROWTH TREND			
Revenue Growth (%)	-	17.11	17.04
Net Profit Growth (%)	-	(3.58)	(24.51)
LIQUIDITY			
Quick Ratio (Times)	1.40	1.74	2.15
Current Ratio (Times)	1.58	2.02	2.32
SOLVENCY			
Interest Coverage Ratio (Times)	10.80	9.06	8.16
Current Liabilities to Inventory (%)	665.72	403.85	789.31
Current Liabilities to Tangible Networkth (%)	53.81	42.41	36.44
LEVERAGE			
Total Debt Equity Ratio (Times)	0.29	0.30	0.15
Total Liabilities to Tangible Networkth (%)	62.88	55.75	46.69
Fixed Asset to Tangible Networkth (%)	73.29	65.71	57.96
EFFICIENCY			
Collection Period (Days)	139	127	122
Revenues to Inventory (Times)	21.90	16.37	38.82
Assets to Revenues (%)	92.01	90.62	81.84
Revenues to Net Working Capital (Times)	5.65	3.96	3.73
PROFITABILITY			
Gross Profit Margin (%)	45.95	39.41	30.84
Operating Profit Margin (%)	17.32	9.37	5.93
Net Profit Margin (%)	14.42	11.87	7.66
Return on Tangible Networkth (%)	25.53	20.41	13.73
Return on Capital Employed (%)	28.10	23.69	17.47
Return on Total Assets	15.68	13.10	9.36

ANNEXURE III- RATING RATIONALE

D&B Rating- 4A3

Tangible networth- INR 311,863 thousand as on 31st March 2017

D&B Indicative Risk Rating of 4A3 implies that the Company has a tangible networth between INR 129,190,000 and 645,949,999 as per latest available audited financial statements. Composite appraisal 3 indicates that the overall status of the Company is fair.

Key strengths

- ✓ Diversified range of services catering to various industries
- ✓ Low reliance on external borrowings coupled with comfortable interest coverage ratio
- ✓ Experience of management resulting in year over year revenue growth

Key constraints

- ✓ Declining profitability margins despite revenue growth and dependency on non-operating income
- ✓ Working capital intensive operations marked by stretched collection period
- ✓ Geographic concentration risk
- ✓ Risk due to volatility in exchange rates
- ✓ High competitive intensity of industry

Key rating sensitivity factors

- ✓ Ability to manage manpower costs and improving margins
- ✓ Ability of the Company to scale up operations
- ✓ Ability of the Company to manage collection period

Key strengths**✓ Diversified range of services catering to various industries**

The Company is engaged in providing civil and structural engineering, mechanical engineering and information technology services deriving 80%, 15% and 5% revenue respectively during FY 2017. It provides structural services to commercial and industrial Steel structures and in addition also to pre-engineered metal buildings, fibred structures, glass cladding, pre-cast concrete structures, application development, cold storage etc. Further, it caters to various industries such as infrastructure, oil & gas, power, telecom etc. This to an extent cushions the Company from any adverse or unpleasant economic condition in a particular industry. As notified, the Company routes its revenues through its wholly owned subsidiaries and none of the customer's constituted more than 20% of the total revenues insulating it from concentration risk.

✓ Low reliance on external borrowings coupled with comfortable interest coverage ratio

Debt equity ratio of the Company remained low during the review period and stood at 0.15 times as on 31st March 2017(making the Company almost debt free). A lower debt component would provide financial flexibility to procure additional funds for further expansion and to meet business exigencies. A low existing debt exposure makes the Company more attractive to lenders as there is less risk in terms of the ability of the Company to service the loan and the Company has lower exposure to interest rate risk as it is insulated from any rise in borrowing costs.

Further, the interest coverage ratio of the Company was comfortable during the review period (8.16 times in FY 2017). Despite decline in profitability in FY 2017 (EBIT level), low interest cost has supported the interest coverage indicators. Lower cash outflow towards repayment of interest obligations would support the financial health of the Company as well.

✓ Experience of management resulting in year over year revenue growth

The Company is led by Mr. J Lakshmana Rao, Chairman and Managing Director, a civil engineer with a gold medal and Master of Business Administration from Indian Institute of Management, Bangalore, having more than 25 years of experience. Mr. Sudharani Janumahanti, Director, has pursued a degree in science and is working with the Company since past 10 years. This experience and long standing presence in industry has helped the Company in establishing long term relations with its customers and resulted in y-o-y growth in revenue at a CAGR of 17.08% during the review period. This long standing experience of the management is expected to help the Company to sustain its business risk profile over the medium term.

Key constraints

✓ **Declining profitability margins despite revenue growth and dependency on non-operating income**

Profitability margins exhibited declining trend during the period under review, primarily due to increase in employee cost year over year. As informed, owing to shift in demand dynamics (i.e. more focus on new technology solutions), new engineers / professionals will have to be hired at higher cost due to shortage of such professionals relative to the demand. Also, existing employees will have to be retrained for such services thus the Company will have to bear the costs related to retraining and employee retention. Further, the Company has expanded its operations in domestic markets by setting up new branches, which requires additional manpower resulting in increased cost. Operating profit margins declined as a result of decline in gross profit margins coupled with high indirect cost (majorly constituting repairs and maintenance, provisions for bad debts and depreciation expenses). Further, net margins are supported by non-operating income (5.26% in FY 2017 as a percentage of revenue), contributed majorly by profit on sale of fixed assets, exclusion of which results in decline in net margins drastically. Declining profitability has resulted in low return indicators as depicted in below table:

KEY RATIOS			
Year	FY 2015	FY 2016	FY 2017
Gross Profit Margin (%)	45.95	39.41	30.84
Operating Profit Margin (%)	17.32	9.37	5.93
Net Profit Margin (%)	14.42	11.87	7.66
Return on Tangible Networth (%)	25.53	20.41	13.73
Return on Capital Employed (%)	28.10	23.69	17.47

✓ **Working capital intensive operations marked by stretched collection period**

Working capital cycle of the Company was stretched due to high collection period which stood 122 days as on 31st March 2017 as against management policy of 30-45 days. This has resulted in large amount being blocked in debtors (debtors constitutes 71% of the total current assets). Further, the Company has witnessed frequent cases of bad debts and is increasing the provision for doubtful debts year over year in anticipation of future non realisations, which is straining the operating margins of the Company. As informed, the Company has now introduced a new policy of charging interest on payments delayed by more than 60%, therefore anticipating the receivable days to come down in near future.

✓ **Geographic concentration risk**

The Company derived around 90% of its revenues from United States of America in FY 2017. This depicts a geographical concentration risk. Further, this percentage has remained more or less in line with the trend in the previous years under review. Any adverse effect in terms of economic slowdown or change in socio-political factors in USA may have an impact of the Company’s revenue and profitability, further adversely impacting its business risk profile.

✓ **Risk due to volatility in exchange rates**

The Company is exposed to foreign currency rate fluctuation risk it derived 96% revenue from international market in FY 2017. Movements in exchange rates are influenced by various macro factors like demand/ supply of the foreign currency, domestic inflation, deterioration in the financial condition of other economies relative to the United States of America, Brexit etc. and most of these factors are

hard to predict leading to volatility in exchange rates. Ability of the Company to manage its exposure in foreign currency through forward covers is critical due to uncertainty involved. The risk is highlighted from the fact that the Company has booked losses on foreign exchange transactions during FY 2015 and FY 2017. As informed, the Company hedges its portfolio by booking forward contracts.

✓ **High competitive intensity of industry**

The competitive intensity has been quite high in the Indian IT sector due to large number of organised and unorganised players. Also the traditional cost advantage of Indian companies is also becoming less relevant with the global majors significantly growing their base in India to exploit its low cost destination nature. Therefore, the ability of the Company to retain its existing clients and add new clients, amidst high competitive environment, remains critical.

Key rating sensitivity factors**✓ Ability to manage manpower costs and improving margins**

IT sector is a manpower intensive business model. Personnel costs constituted nearly 67% of the revenues of the Company in FY 2017 and increased y-o-y during the review period. As informed, increase in personnel costs is due to increase in pay scales following the improvement in the domestic economic environment, hiring of local staff, requirement of skilled employees, etc. Therefore the ability of the Company to hire and retain talent coupled with its ability to manage their cost via efficient utilization rate remains critical.

Further, the Company is facing margin pressures (margins declining y-o-y) due to increase in personnel costs primarily due to economic recovery in the domestic market. Also going ahead the requirement of higher skilled employees with specific skillsets in niche areas will increase, which entails hiring of skilled labour and training costs for existing employees. Therefore, the manpower costs for IT sector will going ahead increase, while at the same time facing pressure from customers to reduce pricing of services and products.

✓ Ability of the Company to scale up operations

Though the topline of the Company depicted y-o-y growth, the same remained moderate during the review period due to increased employee cost. Since the Company operates in a high competitive environment its ability to scale up operations and generate sustainable profits, while insulating itself from foreign exchange rate fluctuations, remains critical.

✓ Ability of the Company to manage collection period

Collection period was high throughout the review period and stood 122 days as on 31st March 2017 as against management policy of 30-45 days. Also, Company has written off bad debts over the years and have made provisions year over year for doubtful debts in anticipation of realisation of outstanding amount. Therefore, reducing the collection period remains critical for the Company. As informed, the Company has now introduced a new policy of charging interest on payments delayed by more than 60%, therefore anticipating the receivable days to come down in near future.

GLOSSARY OF KEY RATIOS AND THEIR COMPUTATION

KEY FINANCIAL RATIOS	DESCRIPTION
GROWTH RATIOS	
Revenue Growth (%)	% change in revenue in the current year over the previous year
Net Profit Growth (%)	% change in net profit in the current year over the previous year
LIQUIDITY RATIOS	
Quick Ratio (Times)	$(\text{Current Assets} - \text{Inventory} - \text{Prepaid Expenses} - \text{Unbilled revenue}) / \text{Current Liabilities}$
Current Ratio (Times)	$\text{Current Assets} / \text{Current Liabilities}$
SOLVENCY RATIOS	
Interest Coverage Ratio (Times)	$\text{Earnings before Interest and Tax} / \text{Interest Expenditure}$
Current Liabilities to Inventory (%)	$(\text{Current Liabilities} / \text{Inventory}) * 100$
Current Liabilities to Tangible Networth (%)	$(\text{Current Liabilities} / \text{Tangible Networth}) * 100$
LEVERAGE	
Total Debt Equity Ratio (Times)	$\text{Total borrowings (Long term + Short term)} / \text{Tangible Networth}$
Total Liabilities to Tangible Networth (%)	$\{(\text{Current Liabilities} + \text{Non-Current Liabilities}) / \text{Tangible Networth}\} * 100$
Fixed Asset to Tangible Networth (%)	$(\text{Fixed Assets} / \text{Tangible Networth}) * 100$
EFFICIENCY RATIOS	
Collection Period (Days)	$\text{Accounts Receivable} / \text{Net Revenue} * 365$
Revenue to Inventory (%)	$(\text{Net Revenue} / \text{Inventory}) * 100$
Assets to Revenue (%)	$\{(\text{Current Assets} + \text{Other tangible Assets}) / \text{Net Revenue}\} * 100$
Revenue to Net Working Capital (Times)	$\text{Net Revenue} / \text{Net Working Capital}$
Accounts Payable (Days)	$\text{Accounts Payable} / \text{Total Purchases} * 365$
PROFITABILITY RATIOS	
Gross Profit Margin (%)	$(\text{Net Revenue} - \text{Direct Expenditure} / \text{Net Revenue}) * 100$
Operating Profit Margin (%)	$(\text{Operating Profit} / \text{Net Revenue}) * 100$
Net Profit Margin (%)	$(\text{Net Profit after Tax} / \text{Net Revenue}) * 100$
Return on Tangible Networth	$(\text{Net Profit after Tax} / \text{Tangible Networth}) * 100$

(%)	
Return on Capital Employed (%)	(Earnings before Interest and Tax/ Capital Employed) *100
Return on Total Assets (%)	(Net Profit after Tax/ (Current Assets + Other Tangible Assets))* 100

OTHER KEY FINANCIAL TERMS	
Direct Expenditure	Cost of material consumed or traded, salaries & wages, freight inward, job work charges, royalties/technical fees and other expenses directly related to manufacturing / rendering of services.
Operating Profit	Measure of profit or loss earned / incurred after charging all direct expenses plus indirect expenses from revenue and other operating income pertaining to core business activities. Taken as EBIT – non operating income.
Net Profit	Measure of net profit or loss earned / incurred after considering all incomes and expenses including interest expenditure and taxes.
Working Capital	Current Assets- Current Liabilities
Tangible Networth	Working Capital + Other Tangible assets- Non Tangible Assets
Capital Employed	Tangible Networth + (Long term borrowings + Short term borrowings) + Minority Interests
Total Borrowings	Long Term (secured & Unsecured) Loans + Short Term (Secured & Unsecured) Loans

CURRENCY: All amounts in this report are in local currency unless otherwise stated.

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