

Karvy Data Management Services Limited: Downgraded

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Term Loans	54.70 (revised from 73.00 crore)	SMERA BBB-/Stable (Downgraded from SMERA BBB+/Stable)
Cash Credit	80.00 (revised from 50.00 crore)	SMERA BBB-/Stable (Downgraded from SMERA BBB+/Stable)
Proposed Cash Credit	130.30 (revised from 130.00 crore)	SMERA BBB-/Stable (Downgraded from SMERA BBB+/Stable)
Bank Guarantee	35.00 (revised from 10.00 crore)	SMERA A3 (Downgraded from SMERA A2)
Cash Credit	10.00	SMERA BBB-/Stable (Downgraded from SMERA BBB+/Stable; Withdrawn)

SMERA has downgraded the long term rating to '**SMERA BBB-**' (read as **SMERA triple B minus**) from '**SMERA BBB+**' (read as **SMERA triple B plus**) and short term rating to '**SMERA A3**' (read as **SMERA A three**) from '**SMERA A2**' (read as **SMERA A two**) on the Rs.300.00 crore bank facilities of Karvy Data Management Services Limited (KDMSL). The outlook is '**Stable**'. Further, SMERA has withdrawn the rating of '**SMERA BBB-/Stable**' on the Rs.10 crore bank facility of KDMSL since there are no dues outstanding.

The rating downgrade is due to deterioration in its financial risk profile, primarily on account of the increasing level of external indebtedness of the company and reduction in support from group entities, leading to tightening of its liquidity profile. The rating downgrade also factors in the significant upcoming debt repayment obligations and exposure of the company to risks related to timely refinancing or repayment of the same.

However, the rating continues to derive comfort from the established track record of promoters in the industry and strong execution capabilities. However, these rating strengths are partially offset by revenue risk arising from concentration in revenue profile towards e-governance segment, intense competition in the segment and working capital intensive nature of operations.

Update

KDMSL's financial risk profile has deteriorated over the last two financial years. The company received supported through Inter Corporate Deposits and other loans to the extent of Rs.135 crore as on March 31, 2015. However in FY2015-16 this support reduced to Rs.79 crore while availing Rs.42.8 crore short term overdraft (due in September 2016) and increase in CC and TL from banks to fund growing working capital requirement. The company's ability to re-finance or repay this debt in a timely manner, is expected to remain a key rating sensitivity factor over the near term.

Also, in FY2016-17, the financial support from associate entities is expected to decline even further, with the company planning to avail significant amount of external long term debt to repay loans from associated entities. This shift in the company's debt profile, coupled with the expected increase in its working capital requirements, to augment the growing scale of operations, is also expected to impinge on the financial risk profile over the medium term.

The gearing of KDMSL has increased to 2.48 times as on March 31, 2016 from 1.46 times as on March 31, 2014. The interest coverage ratio stands at 2.19 times for FY2015-16. The company also has working capital intensive nature of operations, with Gross Current Assets (GCA) being in the range of 330 to 390 days over the past three years. SMERA believes that the company's operations are expected to remain working capital intensive.

KDMSL witnessed healthy growth in FY2015-16 on account of addition of revenues from contact center (call center of Airtel and Punjab National Bank) and addition of few projects in the E-governance space. Revenue increased from Rs.193.21 crore in FY2013-14 to Rs.285.07 crore in FY2015-16. The company has diversified its operations by entering the contact centre business by acquiring a part of Mphasis Limited's BPO business. The company is also expected to venture into supplying of mobile and tablet business for government and educational institutions.

Rating Sensitivity Factors

- Timely refinancing or repayment of upcoming debt obligations
- Efficient working capital management
- Strengthening of the capital structure

Outlook-Stable

SMERA believes that KDMSL will continue to benefit over the medium term owing to its experienced management and established presence in the industry. The outlook may be revised to 'Positive' if the company improves its scale of operations and working capital management leading to improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company records lower-than-expected revenues or the working capital management deteriorates or it undertakes larger than expected debt funded capex leading to further weakening of its financial risk profile.

About the Company

The Hyderabad-based KDMSL, part of the Karvy group was incorporated in 2008. The group is a three decade old diversified financial services conglomerate with presence in stock broking, data management, institutional equities, wealth management and asset management services. Karvy Stock Broking Limited is the flagship company of the group and holds 58 per cent of shareholding in KDMSL, with the balance 42 per cent held by another associate entity-Karvy Realty India Limited.

KDMSL derives majority of its revenue from e-governance projects, such as Unique Identification (UID), National Population Register (NPR) and E- Panchayat. The company also provides back office processing and data management services for industry verticals including telecom, banking and financial services.

FY2015-16, KDMSL reported profit after tax (PAT) of Rs.16.14 crore on operating income of Rs.285.07 crore as compared with profit after tax (PAT) of Rs.7.60 crore on operating income of Rs.200.14 crore in FY2014-15.

Rating History

Date	Facilities	Amount (Rs. Crore)	Rating		Rating/ Outlook
			Long Term	Short Term	
06 July, 2015	Term Loans	73.00	SMERA BBB+ (Assigned)	-	Stable
	Proposed Term Loan	12.00	SMERA BBB+ (Assigned)	-	Stable
	Cash Credit	50.00	SMERA BBB+ (Assigned)	-	Stable
	Proposed Cash Credit	130.00	SMERA BBB+ (Assigned)	-	Stable
	Bank Guarantee	10.00	-	SMERA A2	-
	Proposed Bank Guarantee	25.00	-	SMERA A2	-

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ABOUT SMERA

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