

Karvy Data Management Services Limited: Reaffirmed

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Term Loan	54.70	SMERA BBB-/Stable (Reaffirmed)
Cash Credit	80.00	SMERA BBB-/Stable (Reaffirmed)
Proposed Cash Credit	130.30	SMERA BBB-/Stable (Reaffirmed)
Bank Guarantee	35.00	SMERA A3 (Reaffirmed)
Proposed Fund Based/Non Fund Based	300.00	SMERA BBB-/Stable/SMERA A3 (Assigned)

SMERA has reaffirmed the long term rating of **'SMERA BBB-' (read as SMERA triple B minus)** and short term rating of **'SMERA A3' (read as SMERA A three)** on the Rs.300.00 crore bank facilities of Karvy Data Management Services Limited (KDMSL). SMERA has also assigned long term rating of **'SMERA BBB-' (read as SMERA triple B minus)** and short term rating of **'SMERA A3' (read as SMERA A three)** to the Rs.300 crore proposed bank facilities of KDMSL. The outlook is **'Stable'**.

The ratings continue to derive comfort from the extensive experience of the promoters, established track record of operations and strong execution capabilities. However, these rating strengths are partially offset by revenue risk arising from concentration in revenue profile towards the e-governance segment, intense competition therein and working capital intensive business. The ratings also factors in the deterioration in the 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 liquidity profile. The ratings also note the significant upcoming debt repayment obligations and exposure of the company to risks related to timely refinancing or repayment of the same.

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 requirements. The company's ability to re-finance or repay this debt in a timely manner is expected to remain a key rating sensitivity factor in the near term.

Further, 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 supply of mobile and tablets 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, the working capital management deteriorates or if the company undertakes larger than expected debt funded capex leading to further weakening of the 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 stake in KDMSL with the balance 42 per cent held by 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)	Ratings		Rating Outlook
			Long Term	Short Term	
02 August, 2016	Term Loans	54.70	SMERA BBB- (Downgraded)	-	Stable
	Cash Credit	80.00	SMERA BBB- (Downgraded)	-	Stable
	Proposed Cash Credit	130.30	SMERA BBB- (Downgraded)	-	Stable
	Bank Guarantee	35.00	-	SMERA A3 (Downgraded)	-
	Cash Credit	10.00	SMERA BBB- (Downgraded, Withdrawn)	-	Stable
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	-

Contacts:

Analytical	Business Development
Mr. Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: mohit.jain@smera.in	Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.