

Press Release

Karvy Data Management Services Limited (KDMCL)

13 July, 2017



Rating Upgraded

Total Bank Facilities Rated	Rs. 600.00 Cr*
Long Term Rating	SMERA BBB/Stable (Upgraded)
Short Term Rating	SMERA A3+ (Upgraded)

*Refer Annexure for details

Rating Rationale

SMERA has upgraded the long-term rating to '**SMERA BBB**' (read as SMERA triple B) and short term rating to '**SMERA A3+**' (read as SMERA A three plus) on the Rs.600.00 crore bank facilities of Karvy Data Management Services Limited (KDMCL). The outlook is '**Stable**'. Further, SMERA has withdrawn the long term rating of 'SMERA BBB' (read as SMERA triple B) on the Rs. 6.00 crore term loan as it has been fully repaid as certified by the banker.

The Hyderabad-based KDMCL, part of the Karvy group was incorporated in 2008. The Karvy 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 (KSBL) is the flagship company of the group and holds 30 per cent stake in KDMCL with the balance 70 per cent held by Karvy Realty India Limited (KRIL).

KDMCL undertakes E – Governance projects, back office processing, data management services for the government and also for industries such as telecom, banking sectors among others.

List of key rating drivers and their detailed description:

Strengths:

Long operational track record and experienced management: KDMCL has been in the industry for around seven years which has helped build long term relations with customers. The Directors, Mr. V. Mahesh, Mr. C. Parthasarathy and Mr. V. Ganesh have more than two decades of experience across industries - financial sector, e- governance, IT industry.

Strong project execution capabilities and wide geographic network: KDMCL has strong project execution capabilities evident from the over 100 projects executed as per schedule. The company has more than 485 branch offices and 503 business associates pan India in the shared space model with group companies which help save costs.

Strong revenue growth with visibility over the medium term: KDMCL has witnessed growth in revenues Y-O-Y. In FY2016, the company reported operating income of Rs. 285.07 crore against Rs. 200.14 crore in FY2015 and Rs. 193.21 crore in FY2014.

As per self-certified provisional's, the company booked operating income of Rs. 403.12 crore in FY2017, registering a growth of ~41 per cent over FY2016 on account of expansion of contact centres and execution of system integration projects. Further, the company has an unexecuted order book of ~Rs. 1000.00 crore which provides revenue visibility for the next two years.

Healthy profitability: KDMSL achieved operating margin of 25.09 per cent (Provisional) in FY2017 as against 25.59 per cent in FY2016. The profit after tax (PAT) margin improved to 5.75 per cent (Provisional) in FY2017 as against 5.66 per cent in FY2016. The healthy profitability is attributed to favourable revenue mix of e-governance projects, system integration projects, telecom contact centre among others. Going forward, SMERA believes that the company will continue to concentrate on the same revenue segment which will help sustain profitability.

Weaknesses

Concentrated revenue profile towards e-governance projects and high working capital intensity: The company generates around ~70 percent revenue from e-governance projects. These projects have duration of around two years based on scope, nature, geographic location etc. The debtor days have increased from 168 days in FY2016 to 225 days in FY2017 due to e-governance projects. Though debtors are stretched, no bad debts are expected, since these are government projects. Further, creditor days (for cost of sales) stood at 30 in FY2017 as against 37 in FY2016.

Moderate financial risk profile: KDMSL's gearing (debt to equity) ratio remained high at 2.64 times (Provisional) as on 31 March, 2017 as against 2.48 times as on 31 March, 2016. The Interest coverage ratio (ICR) improved to 2.42 times in FY2017 as against 2.19 times in FY2016. Also, debt service coverage ratio (DSCR) remained at 1.60 times in FY2017 as against 1.60 times in FY2016.

Analytical Approach: SMERA has considered the standalone financial and business risk profiles of KDMSL.

Outlook: Stable

SMERA believes that KDMSL will continue to maintain a stable outlook 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 registers lower-than-expected revenues, profitability or deterioration in the working capital management. Any larger than expected debt funded capex undertaken by the company leading to further weakening of the financial risk profile may entail a 'Negative' outlook.

About the rated entity - Key Financials

In FY2015-16, KDMSL reported profit after tax (PAT) of Rs.16.14 crore on operating income of Rs.285.07 crore compared with profit after tax (PAT) of Rs.7.60 crore on operating income of Rs.200.14 crore in FY2014-15. The tangible net worth stood at Rs.102.54 crore as on 31 March, 2016 as against Rs. 70.25 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
20-Aug-2016	Term Loan	Long Term	54.70	SMERA BBB-/ Stable (Reaffirmed)
	Cash Credit	Long Term	80.00	SMERA BBB-/ Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	130.30	SMERA BBB-/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	35.00	SMERA A3 (Reaffirmed)
	Proposed Fund Based	Long Term	300.00	SMERA BBB-/ Stable/SMERA A3/(Assigned)
02-Aug-2016	Term Loans	Long Term	54.70	SMERA BBB-/ Stable (Downgraded)
	Cash Credit	Long Term	80.00	SMERA BBB-/ Stable (Downgraded)
	Proposed Cash Credit	Long Term	130.30	SMERA BBB-/ Stable (Downgraded)
	Bank Guarantee	Short Term	35.00	SMERA A3

				(Downgraded)
	Cash Credit	Long Term	10.00	SMERA BBB-/ Stable (Downgraded)
06-Jul-2015	Term Loans	Long Term	73.00	SMERA BBB+/ Stable (Assigned)
	Proposed Term Loan	Long Term	12.00	SMERA BBB+/ Stable (Assigned)
	Cash Credit	Long Term	50.00	SMERA BBB+/ Stable (Assigned)
	Proposed Cash Credit	Long Term	130.00	SMERA BBB+/ Stable (Assigned)
	Bank Guarantee	Short Term	10.00	SMERA A2 (Assigned)
	Proposed Bank Guarantee	Short Term	25.00	SMERA A2 (Assigned)

Annexure – Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Cash Credit	NA	NA	NA	20.00	SMERA BBB/Stable (Upgraded)
Term Loans	NA	NA	NA	6.40	SMERA BBB/Stable (Withdrawn)
Cash Credit	NA	NA	NA	35.00	SMERA BBB/Stable (Upgraded)
Term Loans	NA	NA	September 2020	47.91	SMERA BBB/Stable (Upgraded)
Cash Credit	NA	NA	NA	25.00	SMERA BBB/Stable (Upgraded)
Cash Credit	NA	NA	NA	40.00	SMERA BBB/Stable (Assigned)
Cash Credit	NA	NA	NA	20.00	SMERA BBB/Stable (Assigned)
Proposed Fund based	NA	NA	NA	282.09 (reduced from Rs. 430.30 crore)	SMERA BBB/Stable (Upgraded)
Bank Guarantee	NA	NA	NA	5.00	SMERA A3+ (Upgraded)
Bank Guarantee	NA	NA	NA	30.00	SMERA A3+ (Upgraded)
Letter of Credit	NA	NA	NA	30.00	SMERA A3+ (Assigned)
Bank Guarantee	NA	NA	NA	30.00	SMERA A3+ (Assigned)
Letter of Credit	NA	NA	NA	35.00	SMERA A3+ (Assigned)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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