

Press Release

Karvy Data Management Services Limited

August 22, 2018



Rating Upgrade

Total Bank Facilities Rated*	Rs. 600.00 crore
Long Term Rating	ACUITE BBB+/ Stable (Upgraded from ACUITE BBB)
Short Term Rating	ACUITE A2 (Upgraded from ACUITE A3+)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB+** (read as ACUITE triple B Plus) from '**ACUITE BBB**' (read as ACUITE triple B) and short term rating to '**ACUITE A2**' (read as ACUITE A two) from '**ACUITE A3+**' (read as ACUITE A three Plus) to the Rs.600.00 crore bank facilities of Karvy Data Management Services Limited (KDMSL). The outlook is '**Stable**'.

The rating upgrade reflects significant and sustainable improvement in KDMSL's business risk profile marked by healthy operating income growth and improving working capital cycle. Operating income grew y-o-y by about 112 percent on consolidated basis and about 75 percent on standalone basis in FY2018 at Rs.864.37 crore and Rs.705.32 crore, respectively. On consolidated basis, the healthy operating income growth is partly attributed to consolidation of revenues of subsidiaries, and execution of strong order book of KDMSL. As on July 31, 2018, KDMSL and its subsidiaries have unexecuted order book of about Rs.2060.00 crore to be execution over 18-24 months which gives healthy revenue visibility over the medium term.

Working capital cycle improved significantly with Gross Current Assets (GCA) improving to 203 days as on March, 2018 (Provisional) as against 329 days as on March, 2017; owing to favourable change in revenue mix with lower receivable days vis-à-vis E-Governance project revenues (mainly driven by system integration projects) with receivable cycle of upto 180 days. As a result of new revenue stream from subsidiaries, revenue contribution from E-Governance projects has moderated to about 52 percent in FY2018 against 70 percent in FY2015. EBITDA margins declined to 18.60 percent in FY2018 from 24.09 percent in FY17 due to consolidation with subsidiaries engaged in manufacturing and manpower staffing. In absolute terms, EBIDTA has reported 63 percent growth over FY2017. However, the ratings are partly constrained by moderate financial risk profile reflected by high gearing (debt-to-equity) of about 2.45 times as on March 31, 2018 though an improvement from 2.72 times as on March 31, 2017 and increasing support from its group entities, and above-average debt protection metrics.

The Hyderabad-based KDMSL, 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 percent stake in KDMSL with the balance 70 percent held by Karvy Realty India Limited (KRIL). KDMSL undertakes E-Governance projects, back office processing, data management services for the government and also for industries such as telecom, banking sectors among others.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of KDMSL along with its subsidiaries (referred to as KDMSL group) named SciKnow Techno Solutions Limited (STSL, 94.44 percent stake by KDMSL), Karvy Renewable Energy Projects limited (KREPL, 62 percent stake by KDMSL), Karvy DigiKonnект Limited (KDK, 100 Percent wholly owned subsidiary of KDMSL), Karvy Innoventive Limited (KIL, 100 Percent wholly owned subsidiary of KDMSL), Karvy Forde Search Private Limited (KFSPL, 60 percent stake by KDMSL) and Karvy Innotech Limited, formally known as HCL services Limited (KIL, 100 Percent wholly owned subsidiary of KDMSL) to arrive at the rating.

Key Rating Drivers

Strengths:

- Experienced management, leadership market position in key business segments and strong delivery capabilities backed with infrastructure**

KDMSL has been in the industry for a decade which has helped build long term relations with customers and gain leadership market position in its key business segments. Mr. C. Parthasarathy, Mr. V. Mahesh and Mr. V. Ganesh have more than two decades of experience across industries - financial sector, e-governance, IT industry. KDMSL started with assignment of domestic BPO services in 2008 and gradually diversified into various business segments. In 2008, it also entered in insurance business, followed by launch of telecom and record management services in 2009.

Between 2011-2015, it entered in Aadhaar enrolment services, participated in socio-economic caste census (Initiation of these activities led to formation of E-Governance Vertical – the largest vertical), was granted KYC registration agency certificate by SEBI, executed first system integration project and diversified into contact center operations by acquiring part of Mphasis' domestic voice business. In the last three years ending March, 2018, it diversified into various segments when it commenced IT & Allied business services, e-commerce services, assembling and manufacturing smart IT devices and was granted e-KYC license by UIDAI, granted GST Suvidha provider empanelment by GST network. KDMSL has excelled in the above verticals in a smaller time frame by gaining leadership in most of the segments. It has strong delivery capabilities through its pan India presence with 1500 plus regional processing facilities and 4000 plus of delivery centers.

Acuité believes that KDMSL group is expected to benefit from the synergies of the newly acquired companies supported by strong operational and management team over the medium term.

- Acquisition/formation of new subsidiaries - a positive step towards consolidation and foray into new verticals to become an end-to-end solution provider**

KDMSL has acquired/formed new subsidiaries in FY2018 to consolidate its operations and foray into new verticals to become an end-to-end solution provider. It has formed six new subsidiaries in FY2018 investing total of Rs.53.78 crore as on March, 2018. The company acquired SciKnow Techno Solutions Limited (STSL), Karvy Renewable Energy Projects limited (KREPL), Karvy DigiKonnект Limited (KDK), Karvy Innoventive Limited (KIL), Karvy Forde Search Private Limited (KFSPL) and Karvy Innotech Limited (KITL; formally known as HCL services Limited). The acquisition of these entities has led to healthy revenue growth on consolidated basis due to its established presence in that particular vertical in the industry. Besides, they reduced the need to depend on external service / material provider for execution of work / service contracts by KDMSL hitherto. The acquisitions are more on a strategic nature to build a complete eco-system to provide the services end-to-end while gaining the market potential and save margins. With KDMSL's strong operational and experienced

management team, the revenue streams are being appropriately aligned across the group entities to reduce the redundancies in processes and to improvise cost and operational efficiencies.

Acuité believes that re-alignment of KDMSL's revenues under various subsidiaries over the medium term is expected to further strengthen its business risk profile and allow the group to leverage appropriately.

- **Favorable change in revenue mix; revenue remains concentrated**

KDMSL has nine revenue streams – TIN FC, E-governance (consists of Identification management Services, system integration projects, digital services and survey projects), Analytics, e-commerce support services, GST Suvidha provider, Contact centre, banking, record management and other business; of which major revenue comes from e-governance to the tune of about 70 percent of total revenue till FY2015. However, KDMSL's foray into contact centre and telecom support over the past three years has diversified the business risk profile and helped in reducing revenue concentration. KDMSL has witnessed moderation in dependency on e-governance project vertical which has long gestation period and elongated debtor cycle. KDMSL's revenue mix has been changing with revenue from e-governance coming down from 70 percent to 52.4 percent over the last 3-4 years ending March, 2018. However, it still remains concentrated with significant portion from E-governance vertical contribution.

- **Strong order book providing revenue visibility**

KDMSL group on consolidated level has strong order book in hand to be executed over the next 12 months. It has orders from existing business of Rs.1300.00 crore, mandates in hand worth Rs.356.00 crore and prospective orders in pipeline worth Rs.404.00 crore aggregating to Rs.2060.00 crore as on July 31, 2018 which provides strong revenue visibility over the medium term. Of the order book, about 30 percent, 52 percent, and 18 percent is from E-governance, subsidiaries, other business respectively reflecting diversification and strengthening of its revenue profile.

Acuité believes that healthy order book with strong line of operations, and new business verticals within the KDMSL group have poised to grow exponentially over the medium term.

- **Support from Parent and group entities**

KDMSL has demonstrated strong support from its parent as well as group entities over the years. KDMSL has fund support to the extent of Rs.122.25 crore as on March, 2018 as compared to Rs.94.25 crore as on March, 2017. It is in form of intercorporate deposits and overdraft against fixed deposit of Karvy Stock broking Limited (KSBL). There is also unconditional and irrevocable guarantee from KSBL for its entire fund-based working capital limits and non-fund based limits.

Weaknesses:

- **Working capital intensive nature of operations**

KDMSL's operations are capital intensive with Gross Current Assets (GCA) of about 203 days in FY2018. Around ~52.4 percent of revenues are contributed by various E-Governance projects, the average length of the project vary between 6 months to 2 years based on scope, nature, geographic location among others. The debtor days improved from 233 days in FY2017 to 139 days in FY2018 due to increasing revenue contribution from other projects including from subsidiaries, with receivable cycle of less than 90 days vis-à-vis e-governance projects with receivable cycle of over 5-6 months. Though the receivable position is high at Rs.329.08 crore as of March 31, 2018, however major outstanding is receivable within 90 days to an extent of about Rs.279.00 crore and balance is due in 4-5 months period. Though the debtors are stretched, however there are no bad debts expected due to government projects. High GCA has led to high utilisation of its bank lines at about 86 percent over

12 months through July 31, 2018.

Acuité believes that though the increasing revenue contribution from new verticals under the subsidiaries is expected to improve the GCA to about 170-180 days over the medium term, however, the operations continue to be working-capital intensive.

- **Moderate financial risk profile**

KDMSL's financial risk profile is marked by moderate debt protection metrics and capital structure. The gearing has improved from 2.72 times as on March, 2017 to 2.45 times as on March, 2018 due to improvement in net worth from Rs.141.60 crore to Rs.198.04 crore over the same period. The healthy net cash accruals and high debt has led to moderate NCA/TD and interest coverage ratio of 0.15 times and 2.22 times in FY2018 vis-à-vis 0.12 times and 2.35 times in FY2017.

Acuité believes that despite capex investment of about Rs.50.0 – 70.0 crore per annum and loan repayment obligations of about Rs.58.0 – 51.0 crore in FY2019 and FY2020, the financial risk profile is expected to improve on the back of improving scale of operations and healthy cash accruals in the range of Rs.100.0 – 150.0 crore over the medium term.

Outlook:

Acuité believes that KDMSL group 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' in case of significant improvement in its working capital management and financial risk profile while maintaining the profitability. Conversely, the outlook may be revised to 'Negative' if the company registers lower-than-expected revenues, 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 and liquidity may entail a 'Negative' outlook.

About the Rated Entity Financials - Consolidated

	Unit	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	864.37	408.23
EBITDA	Rs. Cr.	160.74	98.36
PAT	Rs. Cr.	23.89	19.73
EBITDA Margin	(%)	18.60	24.09
PAT Margin	(%)	2.76	4.83
ROCE	(%)	18.95	28.02
Total Debt/Tangible Net Worth	Times	2.45	2.72
PBDIT/Interest	Times	2.22	2.35
Total Debt/PBDIT	Times	2.93	3.82
Gross Current Assets (Days)	Days	203	329

Status of non-cooperation with previous CRA:

Not Available

Any other information:

Not Available

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
13-Jul-2017	Term Loans	Long term	47.91	ACUITE BBB/Stable (Upgraded)
	Cash Credit	Long term	80.00	ACUITE BBB/Stable (Upgraded)
	Cash Credit	Long term	60.00	ACUITE BBB/Stable (Assigned)
	Letter of Credit	Short term	65.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short term	30.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short term	35.00	ACUITE A3+ (Upgraded)
	Proposed Fund Based	Long term	282.09	ACUITE BBB/Stable (Upgraded)
20-Aug-2016	Term Loans	Long term	54.70	ACUITE BBB-/Stable (Reaffirmed)
	Cash Credit	Long term	80.00	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Cash Credit	Long term	130.30	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Short term	35.00	ACUITE A3 (Reaffirmed)
	Proposed Fund Based	Long term	300.00	ACUITE BBB/Stable (Reaffirmed)
02-Aug-2016	Term Loans	Long term	54.70	ACUITE BBB-/Stable (Downgraded)
	Cash Credit	Long term	80.00	ACUITE BBB-/Stable (Downgraded)
	Proposed Cash Credit	Long term	130.30	ACUITE BBB-/Stable (Downgraded)
	Bank Guarantee	Long term	35.00	ACUITE A3 (Downgraded)
06-Jul-2015	Term Loans	Long term	73.00	ACUITE BBB+/Stable (Assigned)
	Proposed Term Loan	Long term	12.00	ACUITE BBB+/Stable (Assigned)
	Cash Credit	Long term	50.00	ACUITE BBB+/Stable (Assigned)
	Proposed Cash Credit	Long term	130.00	ACUITE BBB+/Stable (Assigned)
	Bank Guarantee	Short term	10.00	ACUITE A2 (Assigned)
	Proposed Bank Guarantee	Short term	25.00	ACUITE A2 (Assigned)

Applicable Criteria

- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>
- Consolidation of Companies: <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	220.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
Term Loans	Not Applicable	Not Applicable	Not Applicable	111.85	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	158.15	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	110.00	ACUITE A2 (Upgraded from ACUITE A3+)

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About Acuité Ratings & Research:

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