

Press Release

Karthik Travels Private Limited

July 10, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 6.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' (**read as ACUITE BB plus**) on the Rs. 6.00 crore bank facilities of Karthik Travels Private Limited. The outlook is '**Stable**'.

Karthik Travels Private Limited (KTPL) is a Tamil Nadu based company established as a proprietrix firm in the year 1998 and converted to private limited company in the year 2016. It is engaged in providing transportation services to employees, tourists', airport transfer's among others. The company is promoted by Mr. Mohan and his family members. Currently, KTPL has around 900 car fleet (around 500 cars are own fleet and remaining 400 cars are hired fleet), ranging from Rolls Royce, Mercedes-Benz, BMW, Jaguar, Skoda, Toyota, Honda, Tata, Mahindra, Chevrolet, Ford, Maruti, Hyundai and many more. At present, the company is operating in Chennai, Bangalore and Hyderabad.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

KTPL started as a proprietrix firm in the year and converted to private limited company in the year 2016. It is promoted by the Mr. Mohan and family possess more than 2 decades of experience in the said line of business. KTPL received first contract from Standard Chartered Bank. It 2006, the company has added luxury vehicles to its fleet. Now the company is providing services to some of the renowned clients such as Infosys Limited, HCL, RBS Bank, Accenture, Tata Consultancy Services Limited, Arab Emirates among others. Promoter experience coupled with long standing operations in the industry has helped the company to maintain long standing relation with the clients and improving its business risk profile.

- **Improvement in the operating margins**

Earnings before interest, depreciation and tax (EBITDA) of the company improved from 19.55 percent in FY2017 to 32.42 percent in FY2018 (Provisional). Till FY2017, around 50-60 percent of revenues used to come from the HCL. However, from FY2018, the company diversified its customer profile by adding new clients such as Accenture, Infosys Limited among others led to improvement in operating margins. Further, the improvement in operating margins is also supported by addition of new vehicles to fleet leading to less dependent on hired vehicles..

Weaknesses

- **Moderate working capital requirements**

Operations of the company are moderately working capital intensive reflected in gross current assets of around 150 days for the last two years through FY2018. This is mainly on account of high debtor days of around 85-100 days for the last three months through FY2018. For few customers billing is done fortnightly and for few billing is done every month. Post generation of the bill, customers pay the amount in 45-75 days as per the respective contracts. ACUITE believes that, operations are expected to be working capital intensive on account of long credit cycle with the customers.

- **Below average financial risk profile**

Financial risk profile of the company is below average marked by high gearing (Debt to Equity ratio) and high total outside liabilities to total net worth. Though it is underpinned by moderate debt protection metrics and net cash accruals to total debt (NCA/TD). Gearing is high at 5.63 times as on

31 March, 2018 as against 4.35 times as on 31 March, 2017. TOL/TNW is high at 5.88 times as on 31 March 2018 as against 4.73 times as on 31 March, 2017. The same is on account of high reliance on external borrowings for capital expenditure for purchase of vehicles; however, the high gearing and TOL/TNW is mitigated partly by counter-party risk and long-term agreements. Debt protection metrics of interest coverage ratio and debt service coverage ratio is comfortable at 5.63 times and 2.01 times for the FY2018 (Provisional basis). NCA/TD is moderate at 0.30 times as on 31 March, 2018. Its cash accruals in FY2018 is Rs.7.98 crores, against its repayment obligations of Rs.3.50; over the medium term, its cash accruals are expected to be in the range of Rs.7-8 crores against its repayment obligations of about Rs.3.50 crores. Acuité believes that, financial risk profile is expected to improve in the medium term supported by moderate accretion to reserves and healthy accruals.

• Competitive and fragmented industry

KTPL operates in a highly fragmented industry with limited entry barriers wherein the presence of a large number of organised and unorganised players in the sector limits the bargaining power with customers.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the KTPL to arrive at this rating.

Outlook: Stable

Acuité believes that KTPL will maintain a stable outlook over the medium term owing to its experienced management, established relationship with its clientele. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues and profitability while sustaining its working capital intensive operations. Conversely, the outlook may be revised to 'Negative' in case of higher-than-expected debt-funded capex, or any stretch in its liquidity on account of increase in its working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	30.11	31.02	33.22
EBITDA	Rs. Cr.	9.76	6.06	6.37
PAT	Rs. Cr.	0.54	0.90	1.44
EBITDA Margin	(%)	32.42	19.55	19.17
PAT Margin	(%)	1.79	2.91	4.35
ROCE	(%)	8.64	17.05	38.41
Total Debt/Tangible Net Worth	Times	5.63	4.35	5.56
PBDIT/Interest	Times	5.63	2.54	3.65
Total Debt/PBDIT	Times	2.73	3.01	2.21
Gross Current Assets (Days)	Days	153	151	120

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB+ / Stable

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About Acuité Ratings & Research:

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