

June 04, 2014

Facilities	Amount (Rs. Crore)	Rating
Term Loan	10.76	SMERA BBB-/Stable (Assigned)
Proposed Term Loan	19.24	SMERA BBB-/Stable (Assigned)

SMERA has assigned a rating of '**SMERA BBB-**' (**read as SMERA triple B minus**) to the fund based bank facilities of Meru Cab Company Private Limited (Meru). The outlook is '**Stable**'. The rating draws comfort from the company's strong market position, established brand name and advanced systems and processes. The rating is also supported by the company's moderate debt-equity ratio, healthy coverage indicators, strong net cash accruals, improving profitability and experienced management. However, the rating is constrained by the company's exposure to challenges related to retention of drivers amidst intense competition. The rating also factors in the losses incurred by the company in the past.

Meru, incorporated in December 2006, is a leading radio taxi service provider in Mumbai, Hyderabad, Delhi, and Bengaluru. MERU is one of India's largest players in the radio cab service industry. The company benefits from its advanced technological system, which has helped increase average number of trips per day by reducing waiting time between pickups and minimizing unmetered travel between trips. Meru's moderate financial risk profile is marked by debt-equity ratio of 1.17 times as on March 31, 2014. The company has strong coverage indicators, as reflected in interest coverage ratio of 6.15 times (provisional) and net cash accruals to total debt (NCA/TD) ratio of 0.96 times (provisional) in FY2013-14 (refers to financial year, April 01 to March 31).

Meru's financial profile has improved over the past two years on account of change in the company's policy of owning the entire fleet of cabs, and the resultant reduction in repairs and maintenance expenses. Meru is gradually shifting to quasi asset light (QAL) operating model and driver-cum-owner (DCO) operating model. In the QAL operating model, cabs are owned by the company and maintained by driver, whereas in the DCO model, ownership of cabs rests with the drivers. Subsequently, Meru saved on repairs and maintenance expenses. The company's net losses gradually declined over the past two years. Moreover, Meru reported net profit margin of 1.2 per cent in FY2013-14. The company's net profit margin is expected to improve on account of further reduction in repairs and maintenance expenses. Meru benefits from its experienced management. The company's directors have around two decades of experience in the cab service industry. Any change in the company's management will be a key rating sensitivity.

Meru faces intense competition from several players offering cab and car rental services. The company is also exposed to challenges related to retention of drivers.

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Outlook: Stable

SMERA believes the outlook on Meru's rated facilities will remain stable over the medium term on the back of the company's established market position and experienced management. The outlook may be revised to 'Positive' in case the company generates healthy cash flows while improving profitability and expanding geographical base. Conversely, the outlook will be revised to 'Negative' in case of deterioration in the company's financial profile and liquidity position.

About the company

MERU, incorporated in December 2006, is a wholly-owned subsidiary of V-Link Travel Solutions Private Limited. Meru is a leading radio taxi service provider in Mumbai, Hyderabad, Delhi, and Bengaluru. The company has a fleet size of ~5,500 cabs.

For FY2013-14 (as per provisional financial statements), Meru reported profit after tax (PAT) of Rs.2.21 crore on revenues of Rs.177.13 crore, as compared with net loss of Rs.31.1 crore on revenues of Rs.164.8 crore for FY2012-13. Meru's net worth stood at Rs.44.06 crore as on March 31, 2014, as compared with Rs.41.49 crore a year earlier.

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