

**September 14, 2015**

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	10.76	SMERA BB+/Stable (downgraded from SMERA BBB-/Stable)
Proposed Term Loan	19.24	SMERA BB+/Stable (downgraded from SMERA BBB-/Stable)

SMERA has downgraded the ratings of the above mentioned bank facilities of Meru Cab Company Private Limited (Meru) to '**SMERA BB+**' (read as **SMERA double B plus**) from 'SMERA BBB-' (read as SMERA triple B minus). The outlook is '**Stable**'. The rating downgrade reflects the deterioration in the financial risk profile of the company and notes the significant repayment of long term debt in the medium term. The rating factors in the intense competition in the radio cab industry. However, the rating takes into account the experienced management and strong market position of the company.

### Update

Meru reported net loss of Rs.5.09 crore on operating income of Rs.280.28 crore in FY2014-15, as compared with net profit of Rs.3.56 crore on operating income of Rs.177.38 crore in the previous year. The growth in operating income is largely on account of change in accounting method by Meru from billing net receivables from drivers to booking gross income i.e. billings. The change in accounting method has also resulted in booking expenses at the gross level resulting in fall in operating margins.

The financial risk profile of Meru deteriorated in FY2014-15 as compared to the previous year. The gearing increased to 4.03 times as on March 31, 2015 from 2.05 times as on March 31, 2014. The company borrowed around Rs.70 crore in FY2014-15 for procurement of vehicles under the Quasi Attached model which increased the interest expenses from Rs.9.25 crore in FY2013-14 to Rs.14.86 crore for FY2014-15 resulting in a net loss. The interest coverage ratio of the company declined from 6.34 times in FY2013-14 to 3.58 times for FY2014-15. Meru has significant debt repayments to the tune of Rs.40.10 crore payable in FY2015-16 as against an estimated net cash accrual of Rs.35.00 – Rs.40.00 crore.

### Outlook: Stable

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

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### Rating Sensitivity Factors

- Deterioration of financial risk profile
- Improving profitability

### 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 ~3,000 cabs.

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