

June 30, 2023

Girnar Software Pvt. Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Compulsorily Convertible Debentures (CCDs)	49.00	49.00	[ICRA]BBB-(Stable); Reaffirmed
Total	49.00	49.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to favourably factor in Girnar Software Private Limited's (GSPL, the Group) established market position in the Indian online auto tech market, across both new and used car segments. The operating income of the Group (GSPL and its subsidiaries) increased by ~47% in FY2023 (as per provisional financials), driven by strong growth in the insurance and finance segments. The rating also takes into account GSPL's comfortable liquidity profile/financial flexibility, aided by its ability to attract substantial investment from reputed private equity (PE) players (across various rounds of fund raising), who have committed investments of over ~Rs. 3,040 crore in the Group since start of operations. Led by the multiple fundraises, the Group's dependence on external borrowings has remained limited to working capital borrowings and the Group has no significant debt repayments (only lease obligations as at end of FY2023) in the near to medium term. ICRA notes that the Group has also been successful in raising funds at subsidiary and associate companies. In FY2022, Girnar Education Services Private Limited raised ~Rs. 200 crore in Series B funding, followed by fund raising of ~Rs. 802 crore in the Group's insurance vertical (InsuranceDekho) in FY2023.

Despite the healthy YoY growth in scale of operations and reduction in losses, the rating remains constrained by the continuation of substantial operating losses recorded by the company. OPBITDA losses were restricted to ~Rs 390 crore in FY2023 (before ESOP expenses, down from ~Rs 441 crore in FY2022) as the Group made a pivot away from the capital-intensive used car segment, which has remained a drag on the Group's financial metrics. While a further scale down in the used car business (down to ~42% of revenues in FY2023 from 55% of revenues in FY2022), is expected to curtail losses further, a scale up operations in the other segments (particularly insurance and finance) may result in an extended period of operational losses at the consolidated level—and remains a monitorable. Additionally, while a lower scale of the used car business eases the inventory risk for the company, a planned increase in scale of operations in the insurance segment could lead to an increase in the Group's receivables, and remains a monitorable.

GSPL's ability to breakeven at the consolidated level, and to raise additional funds to scale up across segments in the interim period, remains pivotal to its credit profile. Further, GSPL's ability to remain relevant and achieve profitability in the face of significant competition in the tech-driven business, remain crucial for its growth prospects. The competitive and dynamic nature of the industry necessitates continuous upgradation of processes and products to sustain competitive advantage, requiring continuous investments in technology.

The Stable outlook on the long-term rating reflects ICRA's expectation that GSPL will continue to occupy an established position in the auto-tech market over the medium term. Further, a comfortable capital structure and liquidity would help the company navigate the ongoing ramp-up in the insurance and financial services segment or any other contingencies.

Key rating drivers and their description

Credit strengths

Established position as a leading online auto classifieds portal – GSPL is an established participant in the online auto classifieds sector. Cardekho.com, GSPL's primary web portal, leads the market in terms of customer visits and caters to both the new and used car segments. In addition, GSPL has firmed up its presence in the insurance and finance segments over the years, wherein it sold policies with premium worth ~Rs. 1,900 crore and facilitated the disbursement of over ~Rs. 6,000 crore of auto loans in FY2023. GSPL's scale of operations have increased considerably over time through organic as well as inorganic growth strategies, which have further helped in securing the Group's position in an increasingly competitive market.

Strong growth prospects across businesses over medium term – GSPL's presence across the diverse yet interconnected segments of new auto, used auto, insurance and finance businesses, backed by a competitive technology platform, provides the Group with a strong position in a growing market. GSPL stands well placed to leverage from the expected growth in the domestic insurance industry driven by increasing financial literacy and improving internet and smartphone penetration in rural and semi-rural markets. This is expected to help offset the reduced focus on the used car segment of GSPL over the near to medium term.

Financial flexibility provided by strong financial investor base; comfortable liquidity position – GSPL benefits from a history of fund raises from prominent PE investors such as Sequoia Capital, Hillhouse CD Holdings, Lenarco, and PingAn, among others. The parent company raised its latest round of equity of \$160 million (~Rs. 1,195 crore) in October 2021, which was led by Leapfrog Investments. Subsequently, the Group raised funds worth ~\$110 million (~Rs. 802 crore) for the insurance business in FY2023. GSPL's ability to continue to raise funds to support its growth and expansion plans while maintaining an adequate liquidity (cash and investments of, and ~Rs. 1,590 crore as of March 31, 2023), provide comfort.

Credit challenges

Operating losses continue to weigh down credit metrics – The company continues to record substantial operating losses, driven by its attempt to scale up operations across segments; the same continues to constrain the credit metrics. While the bulk of the expenses emanate from outlay towards employees and advertising, both of which are expected to be better absorbed with an increase in scale of operations, the Group's ability to breakeven at a consolidated level and raise timely funds to scale up operations remains crucial for improving its credit metrics.

High competitive intensity in key operating segments – The used car segment, GSPL's predominant revenue driver (~42% of revenues in FY2023), is intensely competitive with many unorganised and organised players, such as Cars24, Spinny, Droom and CarTrade, among others. Moreover, major OEMs like Maruti Suzuki and Mahindra & Mahindra are also present in the used car business, which enhances the competition. Similarly, the insurance segment—which is expected to be the primary driver of revenue growth in the near term—also faces intense competition from established players such as PB Fintech Private Limited (PolicyBazaar) and start-ups such as Turtlemint and RenewBuy. This reduces pricing flexibility, increases the selling/branding expenses and is likely to elongate the consolidated Group's path to profitability.

Exposure to slowdown in automobile sector and other exogenous shocks – GSPL's revenues from non-auto segments comprised only a small portion of the Group's overall revenues in FY2023. Even in the insurance and finance segments, majority of its revenues were driven by auto finance/insurance (~20% of premium collected from the non-auto segment in the insurance business in FY2023). As such, the Group remains exposed to exogenous shocks, which may adversely impact demand in the automotive industry and constrain its scale of operations.

Liquidity: Adequate

The company's liquidity is expected to remain adequate in the near term. The Group does not have any repayment liabilities and plans to incur a capital expenditure of ~Rs. 12 crore in FY2024. Although the free cash flows have remained negative, the Group has met its funding requirements through fund raises from various PE players. A healthy cash and investments balance (~Rs. 1,590 crore as of March 31, 2023) provide comfort regarding the company's ability to meet its obligations in a timely manner.

Rating Sensitivities

Positive factors – ICRA could upgrade the rating if there is a substantial improvement in scale of operations along with a sustained breakeven at OPBDITA level, while maintaining a comfortable liquidity position.

Negative factors – ICRA could downgrade the ratings if there is a weakening in the liquidity position of the entity, led by higher than anticipated cash losses or significant capex undertaken.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GSPL. The details are given in Annexure II.

About the company

Incorporated in 2006 as a software service provider, GSPL started providing online search-related services and information on new automobiles to consumers and automobile dealers in 2008. The Group connects automobile dealers, OEMs and customers through several websites such as Cardekho.com, Trucksdekho.com, Bikedekho.com, Pricedekho.com, gaadi.com and zigwheels.com, among others. GSPL derives revenues through lead conversion, advertisements, and direct sale of used autos, operating across B2B, B2C and C2D segments. Additionally, it facilitates financing and insurance of automobiles by integrating the same on its portals. GSPL's subsidiary, Girnar Automobiles Private Limited, owns the Cardekho portal while another subsidiary, Girnar Insurance Brokers Private Limited, is an Insurance Regulatory and Development Authority of India registered insurance broker. In FY2022, the Group also started disbursing loans on its own books.

The company diversified into other south-east Asian markets (~11% of revenues in FY2023), namely Indonesia (September 2016: organised the online auto classifieds segment through its portal, Oto.com), the Philippines (November 2019: through acquisition of Carmudi, leading new auto player in the Philippines) and Malaysia (December 2020). In these markets, the Group generates revenues solely through its classifieds and lead generation on its online platforms.

Key financial indicators (audited)

GSPL Consolidated	FY2022	FY2023*
Operating Income (Rs. crore)	1,597.9	2,348.9
PAT (Rs. crore)	(234.4)	-
OPBDIT/OI (%)	-32.4%	-
PAT/OI (%)	-14.7%	-
Total Outside Liabilities/Tangible Net Worth (times)	0.3	-
Total Debt/OPBDIT (times)	-0.5	-
Interest Coverage (times)	-36.2	-

Note: Amount in Rs. crore: All calculations are as per ICRA research. Source: Company, ICRA Research; *Provisional numbers.

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Total assets and net worth exclude revaluation reserves

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021*
				Jun 30, 2023	Jun 30, 2022	Jun 14, 2021	May 18, 2020
1 Compulsorily Convertible Debentures	Long term	49.0	49.0	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)

*An update on reason for delay in periodic surveillance was published on April 29, 2020

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Compulsorily Convertible Debentures	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE731P08023	Compulsorily Convertible Debentures	January 2019	0.00001%	January 2029	49.00	[ICRA]BBB-(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	GSPL Ownership	Consolidation Approach
Girnar Software Private Limited	100.00% (rated entity)	Full Consolidation
Gaadi Web Private Limited	100.00%	Full Consolidation
Girnarsoft Automobiles Private Limited	100.00%	Full Consolidation
Girnar Care Private Limited	100.00%	Full Consolidation
Carbay Pte Ltd	100.00%	Full Consolidation
PT Carbay Services Indonesia	100.00%	Full Consolidation
Carbay Philippines Inc	100.00%	Full Consolidation
Carbay Services Malaysia Sdn. Bhd.	100.00%	Full Consolidation
Advanced Structures India Private Limited	100.00%	Full Consolidation
Girnar Software (SEZ) Private Limited	100.00%	Full Consolidation
Powerdrift Studios Private Limited	100.00%	Full Consolidation
Girnar Insurance Brokers Private Limited	61.00%	Full Consolidation
Girnar Finserv Private Limited	61.00%	Full Consolidation
Girnarsoft Education Services Private Limited	38.68%	Equity Method
Advanced Structures India Pvt Ltd	22.10%	Equity Method

Source: Company

Note: ICRA has factored in the consolidated financials of GSPL while arriving at the rating.

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Branches



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