

## Golden Star Facilities And Services Private Limited

April 27, 2018

### Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based	24.00	[ICRA]AA- (SO) (Positive); assigned
Short-term fund based (sublimit)	(24.00)	[ICRA]A1+ (SO); assigned
Short-term non-fund based (sublimit)	(5.30)	[ICRA]A1+ (SO); assigned
<b>Total</b>	<b>24.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned a rating of [ICRA]AA- (SO) (pronounced ICRA Double A minus Structured Obligation) to the Rs. 24.00 crore<sup>1</sup> long-term fund based facilities of Golden Star Facilities And Services Private Limited (Goldenstar/the company). The outlook on the long-term rating is 'Positive'. ICRA has also assigned a rating of [ICRA]A1+ (SO) (pronounced ICRA A One Plus Structured Obligation) to the Rs. 24.00 crore short term fund based facilities (sublimit) and the Rs. 5.30 crore short term non-fund based facilities (sublimit) of the company.

The letters SO in parenthesis suffixed to a rating symbol stand for structured obligation. An SO rating is specific to the rated issue, its terms, and its structure. SO ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned.

### Rationale

The ratings are principally based on an unconditional and irrevocable corporate guarantee from Qess Corp Limited (QCL/the guarantor, rated [ICRA]AA-(Positive)/[ICRA]A1+) for the Rs.24.00 crore bank lines of Goldenstar and an undertaking provided by the guarantor that it would ensure that the related debt obligations are serviced on or prior to the due date, irrespective of the invocation of the guarantee by the beneficiary.

The ratings also draw comfort from the company's operational track record spanning about 10 years, its established customer profile and healthy debt protection metrics. The ratings, are however, constrained by Goldenstar's concentration with its top two clients constituting 42% of revenues in FY2018; its segment concentration with the top segment (Information Technology) constituting 53% of revenues and top two segments constituting 64% of revenues in FY2018; and its geographic concentration with the top two states constituting 88% of revenues in FY2018. The company also has relatively thin margins on account of relatively low value addition, fragmented industry structure and intense competition.

### Outlook: Positive

The outlook may be revised to 'Stable' or 'Negative' if there is deterioration in financial risk profile of the guarantor characterised by cash accruals being lower than ICRA's expectations, or if debt-funded capital expenditure for acquisitions, or stretch in the working capital intensity affect the guarantor's liquidity.

<sup>1</sup> 100 lakh = 1 crore = 10 million

## Key rating drivers

### Credit strengths

**Corporate guarantee and undertaking provided by QCL towards the rated bank facilities of the company:** ICRA has taken comfort from the irrevocable and unconditional corporate guarantee and undertaking provided by QCL for line of credit availed by the company. Goldenstar also benefits from operational support and management expertise on account of being a subsidiary of QCL.

**Healthy operational track record; robust year-on-year growth in the last few years:** The company has been in operation since 2008. The promoter, Ms. Anita Verghese has been in the business since 1999. The healthy operational track record has helped and would help the company build its customer base. Goldenstar's revenues have grown by a CAGR of 27.4% from FY2014 to FY2018, with over 20% growth on YoY basis for the period – the growth was derived from expansion of existing businesses, new businesses from existing customers and new customer additions.

**Comfortable debt protection metrics:** Goldenstar's debt profile comprises only of working capital borrowings – the working capital borrowings stood at relatively low levels of Rs.8.8 crore as of March 31, 2018. As a result of low debt levels, the company has comfortable debt protection metrics with gearing at 0.7 times as on March 31, 2018 (according to unaudited financials), Total Debt/OPBITDA of 1.3 times and interest coverage ratio of 4.8 times for FY2018 (according to unaudited financials). The debt profile and capital structure are likely to remain comfortable going forward as well.

**Established client profile mitigates counter-party credit risk:** Goldenstar has a client base of over 200 clients, with most of them being reputed players in their respective industries. This mitigates counter-party credit risk and ensures timely receipt of receivables

### Credit challenges

**Relatively thin margins:** Goldenstar's margins are relatively thin due to the limited value addition and intense competition arising from the fragmented industry structure. According to unaudited financials, the company's operating profit margin (OPM) was 4.4% and its net profit margin (NPM) was at 2.0% for FY2018. Given the cost plus pricing, the margins are likely to remain at similar levels going forward as well.

**High segment and client concentration:** The company derived 53% of its revenues from Information Technology in FY2018. Banking and financial services contributed to 11% of revenues in FY2018. Goldenstar also has high client concentration with the top customer constituting 32% of revenues in FY2018 and the top two customers constituting to 42% of revenues in the same year. The high segment and client concentration exposes the company to revenue volatility arising from the sector growth/policies and clients' expansions and business prospects. However, the risks are mitigated to an extent through a well-diversified base of ~200 clients and 15 other segments constituting the remaining revenues.

**High geographic concentration:** The company derives 88% of its revenues from Telangana and Karnataka and about 97% from South India as a whole. Though Goldenstar has been expanding its presence to the rest of India over the last five months, the company's revenues remain concentrated in the Southern markets, exposing it to regional risks.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Approach for rating debt instruments backed by third-party explicit support](#)

## About the company:

Headquartered in Hyderabad, Golden Star Facilities and Services Private Limited (Golden Star/the company) is a facility management company engaged primarily in housekeeping services. The company also does allied services such as pest control, façade cleaning and carpet shampooing. Goldenstar has around 9,000 employees and operates across 19 states; however its revenues are concentrated in South India. The company's clients include leading corporates across Information technology, BFSI, FMCG, Healthcare sectors.

### Brief history:

Ms. Anita Verghese, the founder of the company, has been in the facility management business since 1999. Goldenstar was started in 2008 by Ms. Verghese. The company continued to be run by Ms. Verghese and her friend until a majority stake was acquired by Manipal Integrated Services Private Limited (MIS) in December 2015; MIS held 60% stake and Ms. Verghese held the remaining 40%. Goldenstar underwent another shareholding change when Qess Corp Limited (QCL, rated [ICRA]AA- (Positive)/[ICRA]A1+) acquired the 60% stake from MIS in November 2016 and a further 10% stake from Ms. Anita Verghese in January 2018. Currently, 70% of the company is held by QCL, while 30% is held by Ms. Anita. QCL has nominee director representation in Goldenstar's Board.

## About the guarantor:

Qess Corp Limited is engaged in offering end-to-end business solutions like recruitment, temporary staffing, technology staffing, IT products and solutions, skill development, payroll, compliance management, integrated facility management and industrial asset management services to corporate clients operating across sectors. By dealing with QCL, clients have the flexibility to maintain a large employee base all-round the year thereby allowing them to save on unwanted manpower costs during off-season and outsource their non-core activities.

QCL was incorporated in October 2007 in Bangalore by Mr. Ajit Isaac. The company received initial round of private equity funding during February 2008 wherein India Equity Partners (IEP) acquired a stake in QCL for an investment of Rs.21.3 crore. During May 2013, Thomas Cook (India) Limited (TCIL), India's largest integrated travel company, acquired a 74.85% stake in QCL for a consideration of Rs.256 crore during February 2013. IEP had also exited QCL by selling its shares to TCIL as a part of this deal. As on date, TCIL has a stake of about 49.02% in QCL subsequent to various stake dilutions over the years.

QCL has acquired other companies involved in a variety of businesses over the last few years and currently operates various joint ventures and subsidiaries. On a consolidated basis, the company currently has over 2,12,500 associated employees under payrolls providing services to clients operating across domains such as information technology (IT), IT enabled services (ITeS), Consumer durables, Telecom, Pharmaceuticals, Entertainment, FMCG, etc. QCL, head quartered in Bangalore, operates through 65 offices located in 34 cities in nine countries like India, USA, Canada, Sri Lanka, UAE, Malaysia, Philippines, Singapore and Vietnam.

## Key financial indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	96.7	123.6
PAT (Rs. crore)	0.0	3.5
OPBDIT/ OI (%)	3.0%	5.2%
RoCE (%)	18.0%	36.0%
Total Debt/ TNW (times)	1.9	1.0
Total Debt/ OPBDIT (times)	3.8	1.4
Interest coverage (times)	2.2	4.9
NWC/ OI (%)	12.4%	12.1%

Source: Company, ICRA Research; OPBITDA: Operating profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth; NWC: Net Working Capital

**Status of non-cooperation with previous CRA:** CRISIL has in its rationale published on Goldenstar, dated September 06, 2017 stated the following:

*“CRISIL has been consistently following up with Golden Star Facilities and Services Private Limited (GSFL) for obtaining information through letters and emails dated April 18, 2017 and May 09, 2017, among others apart from telephonic communication. However, the issuer has remained non-cooperative. The investors, lenders, and all other market participants should exercise due caution while using the rating assigned/reviewed with the suffix ‘ISSUER NON COOPERATING’. These ratings lack a forward looking component as it is arrived at without any management interaction and is based on best available or limited or dated information on the company. CRISIL has withdrawn its ratings on the bank loan facilities of GSFL on the company’s request and on receipt of no-dues certificate from the banker. The rating action is in line with CRISIL’s policy on withdrawal of bank loan ratings.”*

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					NA		
Cash Credit	Long term	24.00	NA	April 2018 [ICRA]AA- (SO) (Positive)			
Working capital Demand Loan	Short term	(24.00)	NA	[ICRA]A1+ (SO)	NA		
Bank Guarantee	Short term	(5.30)	NA	[ICRA]A1+ (SO)			

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Cash Credit	NA	NA	NA	24.00	[ICRA]AA-(SO)(Positive)
	Working capital demand loan	NA	NA	NA	(24.00)	[ICRA]A1+(SO)
	Bank Guarantee	NA	NA	NA	(5.30)	[ICRA]A1+(SO)

Source: Goldenstar Facilities and Services Private Limited

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

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