

Karvy Data Management Services Limited

April 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long Term Fund based/Non-Fund Based	223.30	370.59	[ICRA]A+(SO)(stable); reaffirmed
Total	223.30	370.59	

Rating action

ICRA has reaffirmed the long term rating of [ICRA]A+ (SO) (stable) (pronounced ICRA A plus Structured Obligation with stable outlook) for the Rs. 370.59 crore (enhanced from Rs. 223.30 crore) long-term bank lines programme of Karvy Data Management Services Limited.

The Structured Obligation (SO) ratings do not represent ICRA's opinion on the general credit quality of KDMSL. The assigned ratings are based on the strength of unconditional and irrevocable corporate guarantees provided by KDMSL's parent - Karvy Stock Broking Ltd (KSBL; rated [ICRA]A+(stable)/ [ICRA]A1+). The guarantees from KSBL would cover all obligations that may arise on the rated bank line programme.

Rationale

The ratings take comfort from the long experience of Karvy Group in retail equity broking business and the group's diversified revenue profile with growing contribution from data management business. The rating also takes note of the growth in revenues and non-government related projects for Karvy Data Management Services Limited (KDMSL). While the rating factors in the group's adequate risk management systems, it is constrained by the cyclical nature of Karvy Group's primary business being dependent on the domestic capital market, corporate guarantees provided to the group's relatively new businesses, and the negative operating cashflow along with very high receivables cycle of the government projects with KDMSL. However, ICRA takes note of the management's efforts to diversify into non-state/central government projects that provide stability to KDMSL's cashflows in the longer term.

Outlook: Stable

ICRA believes KDMSL will continue to benefit from support provided from the parent (KSBL) and growing presence in the data management business. The outlook may be revised to 'Positive' if a healthy scaling up of operations along with greater diversification in revenue stream strengthens the company's cash flows and receivables profile. The outlook may be revised to a 'Negative' in the event of a downturn in the industry or any changes in the regulatory environment, which may have an impact on the business operations and consequently on the financial performance of the company.

Key rating drivers

Credit strengths

Unconditional and irrevocable guarantee from KSBL - The reaffirmed SO ratings are based on the strength of unconditional and irrevocable corporate guarantees provided by KSBL. The guarantees from KSBL would cover all obligations that may arise on the rated bank line programme.

Group having a diversified revenue profile, with businesses like mortgage finance, data management, registrar and transfer agency that is not linked to the volatile capital markets - Incorporated in 1983 to undertake the registrar and transfer agency business, Karvy Group has a diversified business profile within the capital market space with KSBL and its wholly owned subsidiaries are engaged in business operations including equity broking, commodity broking, retail lending, real estate advisory services and data management services. Some businesses like mortgage finance, data management services and registrar and transfer agency have relatively more stable income profile with no direct linkage to performance of capital markets.

Growing presence in the data management business – Karvy group incorporated Karvy Data Management Services Limited (KDMSL) in 2008 to provide business and knowledge services. The company started off as a pure-play back office service provider and has moved on to operate in business verticals like E Governance, Telecom and Banking. The company has been able to increase its operating income to Rs. 405.54 crore in FY2017 from Rs. 287.17 crore in FY2016. The Contribution of E-Governance to the total Revenues of the company has been significantly increasing from 1% in FY2011 to ~62% in FY2017.

Healthy operating profitability of the data management business – In the last few years, KDMSL has been reporting healthy operating profitability with an operating profit margin of ~25% over FY2015-17. However, due to the high interest expenses, the profitability remains moderate at the net profit level. In FY2017, the company reported a net profit of Rs. 23.19 crore (net profit margin of 5.72%) as compared to a net profit of Rs. 16.14 crore (net profit margin of 5.62%) in FY2016. In H1FY2018, the company reported a net profit of Rs. 11.35 crore (net profit margin of 3.74%). KDMSL has been reporting healthy internal accruals and has become a primary contributor to KSBL's consolidated net profit.

Credit challenges

High reliance on government contracts which have long repayment schedules – KDMSL has a high quantum of debtors outstanding (Rs. 287 crore) as on March 31, 2017. The primary reason for such high debtors outstanding is the delay in collections from government projects. Since, ~65% of the KDMSL's revenue are coming from government projects, the overall debtor days for the company is high (258 days in FY2017 vs. 166 days in FY2016) with collection from certain government projects exceeding 6 months. Going forward, the ability of the company to improve on its collections from government projects and contain its debtor days would be a key rating monitorable.

High gearing for the data management business – Due to the delay in collections from government projects, the working capital borrowing requirements for the company is quite high. As a result, the gearing for the company has been high at 2.65 times as on September 30, 2017 as compared to 2.18 times as on March 31, 2017. Given the service nature of the business with minimal capital expenditure, the gearing seems to be high as compared to other players in this segment.

High gearing on a consolidated basis – KSBL's broking business has a comfortable liquidity profile with low utilisation of the margins placed with stock exchanges (generally ~60-70%) and ready access to client's assets (backed by share collateral) that can be monetised without a significant lag. KSBL's gearing is also relatively low at 1.62 times as on March 31, 2017. However, on a consolidated basis, the gearing is much higher at 5.07 times as on March 31, 2017, although it has reduced from 6.01 times as on March 31, 2016. The gearing is high at the consolidated level primarily due to the borrowings in the NBFC business and data management business. ICRA, however, takes comfort from the recent slump sale of assets in the NBFC business which would help the company in lowering the gearing at the consolidated level.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About KDMSL

Karvy Data Management Services Limited (KDMSL), a step-down subsidiary of Karvy Stock Broking Limited, incorporated in April 2008 and headquartered in Hyderabad. It is a provider of business and knowledge process services. The company started off as a pure-play back office service provider in the year 2008 and has moved on to operate in Business Verticals Like: E Governance, Telecom and Banking. The company also focuses on Government Project related Mandates such as NPR Biometric, UID, PAN card related services, E-TDS etc. It enjoys strong support from the Karvy group and has established working relationships with several key government departments.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income	287.17	405.54
OPBDITA	74.78	103.47
Interest	33.93	42.75
PBT	22.94	35.13
PAT	16.14	23.19
Net cash accruals	34.05	48.77
OPBDITA%	26.04%	25.51%
PAT / OI %	5.62%	5.72%
RoCE %	15.94%	16.15%
RoNW %	14.41%	14.89%
Net Worth	135.10	176.29
Total Debt	254.04	384.86
Gearing	1.88	2.18

About KSBL

Karvy Stock Broking Ltd. (KSBL) is a part of the Hyderabad-based Karvy group of companies. The key promoters of the group are Mr. C. Parthasarathy, Mr. M.S.Ramakrishna and Mr. M. Yugandhar. In November 2007, ICICI Venture and Baring Asia PE acquired 30.95% stake in Karvy Stock Broking Limited (KSBL) by buying the entire 20% equity held by Pacific Century Group and an additional 10.95% stake in the form of fresh equity. KCL, the promoter company acquired the stake of ICICI Venture in the last financial year. KSBL is engaged in the equity broking, depository operations, distribution of financial products, advisory services and wealth management.

Key financial indicators (Audited - Consolidated)

	FY2016	FY2017
Brokerage Income (net)	123.56	193.79
Fee Income (other than broking)	81.31	88.75
Net Interest Income	(5.79)	(82.47)
Other Non-Interest Income	421.32	482.59
Net Operating Income	620.40	682.61
Total Operating Expenses	547.16	651.95
Profit Before Tax	58.08	13.71
Profit After Tax	39.87	4.21
Net Worth	529.50	533.76
Gearing	6.01	5.07
Return on Net Worth	7.62%	0.84%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		FY2018	FY2017	FY2016
					April-18	-	Nov-16	-
1	Long term (Fund based/Non-Fund Based)	Long term	370.59	223.3	[ICRA]A+ (SO) (stable)	-	[ICRA]A+ (SO) (stable); assigned	-

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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long term Bank Lines (Fund based/Non-Fund Based)	-	-	-	370.59	[ICRA]A+ (SO) (stable)

Source: Karvy Data Management Services Limited

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