Karvy Fintech Private Limited

December 05, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	400.00	400.00	[ICRA]AA- (Stable); reassigned from Provisional [ICRA]AA- (SO) (Stable)
Total	**400.00**	**400.00**	

**Instrument details are provided in Annexure-1*

Update

Karvy Fintech Private Limited (KFPL) received all the approvals from the regulatory authorities for its composite scheme of arrangement and amalgamation. Following the completion of all the transactions under its composite scheme, Karvy Computershare Private Limited (KCPL or the merged entity) was merged into KFPL and General Atlantic Singapore Fund Pte Ltd (GA) became the majority stakeholder (83.25%) in KFPL.

As KCPL was merged into KFPL, KFPL will continue the business of providing (i) the services of a registrar for the issuance of securities or of a share transfer agent, and back office functions in relation thereto; (ii) transfer agency and fund accounting services to the asset management industry and compliance, back office operations and data processing activities in relation thereto; and (iii) central recordkeeping agency services under the National Pension System operated and administered by the Pension Fund Regulatory and Development Authority (PFRDA). Further, all the employees and the systems of KCPL have been transferred to KFPL.

Rationale

The rating factors in the strong parentage of GA (83.25% stake in KFPL), the long track record of the merged entity along with the significant market share in the mutual fund transfer agency (MFTA) and corporate registry businesses as well as the high entry barriers in the industry. The rating is further supported by strong financial metrics with improving profitability and considerable cash flow generating business. The rating is, however, constrained by the limited diversification in the revenue profile and concentration of the clientele in the MFTA business.

Outlook: Stable

The outlook may be revised to Positive in case of a better-than-expected improvement in KFPL's financial performance or if the company is able to diversify its revenues. The outlook may be revised to Negative in case of a deterioration in KFPL's credit profile, any adverse changes in the regulatory policies impacting its operating environment or any material changes in its ownership structure.

Key rating drivers

Credit strengths

Strong parentage - GA holds a stake of 83.25% in KFPL, providing it with strong parentage support. GA was founded in 1980 as a private equity firm to invest on behalf of The Atlantic Philanthropies, which was established by Charles Feeney, a global entrepreneur. Since 1980, GA has invested in more than 250 companies globally. It manages total assets worth around $28 billion from its 13 global offices across 5 regions.

One of the two major players in the MFTA business - KFPL offers end-to-end services to investors and distributors of mutual funds. It renders financial services to 33 asset management companies (AMCs) globally and more than 40 million investors with over 3,000 mutual fund schemes. The company offers services to stakeholders through a wide range of delivery channels, service centres, BPO centres, investor/distributor online services, SMS, email and the regular postal system. KFPL had a market share of 29% in FY2018. The barriers to entry in the MFTA business are high, both financially and operationally.

Established position in corporate registry business - KFPL is one of India's largest registrar & transfer agents and has been in the mutual fund servicing business since 1994 (in the form of the merged entity). It provides investor services to more than 2,000 corporates, including large companies, banks and financial institutions and has a large network of over 500 branches across the country to support them. This business operation is not exposed to any kind of risk associated with the capital market. However, as a large amount of data processing is involved in this business, it is exposed to operational risks and human error.

Gradual improvement in profitability with scale up of operations - The company has been gradually improving its profitability indicators with the scaling up of its operations. With an improvement in the EBITDA margin in the MFTA segment in the last few years, the company's overall profitability in terms of profit after tax/operating income also improved to 21.83% in FY2018 (21.02% in H1 FY2019) from 14.91% in FY2015. Further, the business generated strong free cash flow of Rs. 103 crore in FY2018, representing an improvement from Rs. 25 crore in FY2015.

Credit challenges

Revenue profile remains dominated by MFTA and registry businesses - The company's revenues are predominantly from the MFTA (72% in FY2018) and registry business (15% in FY2018). In fact, till FY2012, these were the only source of revenue for the company. However, KFPL has been making efforts to diversify its revenue mix in the last few years. Hence, Global Business Services, Global Financial Services, Pension Services and the Bahrain business were started in the last few years and their share in the revenue mix has been increasing over time. While these businesses are in the initial stages and their share in the overall revenue mix remains small at present, the share of the MFTA and registry businesses in the overall mix has declined to 87% in FY2018 from 97% in FY2013. Going forward, the company would like to increase the share of the other businesses while continuing to focus on the traditional business of MFTA and corporate registry.

Client concentration - In terms of concentration of clients in the MFTA segment, the top 3 clients (UTI, Axis and Reliance) account for 70% of the company's revenue. However, ICRA notes that the clients would rarely shift to competitors and would prefer to continue with the existing service provider.

Liquidity position

KCPL has a comfortable liquidity position with a current ratio of 2.26 times as on September 30, 2018 and 2.08 times as on March 31, 2018. Further, it generated significant free cash flow of Rs. 103 crore during FY2018. The cash and bank balance including liquid investments amounted to Rs. 119.73 crore as on November 30, 2018.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate credit rating methodology
Parent / Group Support	For arriving at the ratings, ICRA has considered the support of GA, which has a stake of 83.25% in KFPL
Consolidation / Standalone	Standalone

About the company

Karvy Fintech Private Limited (KFPL) was created as an operating entity through a scheme of arrangement and amalgamation of the current operating entity viz. Karvy Computershare Private Limited (KCPL) and a demerged undertaking of Karvy Consultants Limited (KCL), one of the parent companies of KCPL. KCPL's shareholders signed a definitive agreement with General Atlantic Singapore Fund Pte Ltd (GA), whereby GA acquired a stake of 83.25% in KFPL while Mr C. Parthasarathy will continue to be a key shareholder.

As KCPL was merged with KFPL, KFPL will continue the business of providing (i) the services of a registrar for the issuance of securities or of a share transfer agent, and back office functions in relation thereto; (ii) transfer agency and fund accounting services to the asset management industry and compliance, back office operations and data processing activities in relation thereto; and (iii) central recordkeeping agency services under the National Pension System operated and administered by the PFRDA. Further, all the employees and systems of KCPL have been transferred to KFPL. The merged entity reported a net profit of Rs. 88.80 crore on an operating income of Rs. 406.85 crore in FY2018 compared with a net profit of Rs. 67.85 crore on an operating income of Rs. 366.25 crore in FY2017. During H1 FY2019, it reported a net profit of Rs. 46.26 crore on an operating income of Rs. 220.02 crore.

Key financial indicators - KCPL

	FY2017 Audited	FY2018 Audited	H1 FY2019 Unaudited
Operating Income (Rs. crore)	366.25	406.85	220.02
PAT (Rs. crore)	67.85	88.80	46.26
OPBDIT/OI (%)	28.45%	33.07%	32.08%
PAT / OI	18.52%	21.83%	21.02%
RoCE (%)	47.02%	46.82%	39.71%
Net Worth	234.17	323.18	370.26
Total Assets	288.28	400.91	457.64
Total Debt/TNW (times)	-	-	-
Interest Coverage (times)	-	-	-
Current Ratio (times)	3.45	2.08	2.26

Status of non-cooperation with previous CRA: Not applicable

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 Dec 2018	Date & Rating Aug 2018	Date & Rating in FY2018 Sep 2017	Date & Rating in FY2017 -	Date & Rating in FY2016 -
1	Non-convertible Debenture Programme	Long Term	400.00	-	[ICRA]AA-(Stable)	Provisional [ICRA]AA-(SO) (Stable)	Provisional [ICRA]AA-(SO) (Stable)	-	-

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
INE138Y07017	Non-convertible Debenture Programme	November 16, 2018	11.50%	November 16, 2023	400.00	[ICRA]AA- (Stable)

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