

## Girnar Software Pvt. Ltd.

March 20, 2019

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long Term: Compulsorily Convertible Debentures (CCDs)	61.00	[ICRA]BBB- (Stable); assigned
<b>Total</b>	<b>61.00</b>	

\* -Instrument details are provided in Annexure 1

### Rationale

The assigned rating favorably factors in Girnar Software Pvt Ltd's (GSPL's) established market position in the Indian online auto classifieds market. The rating also factors in the company's diversified revenue base, with presence across the entire range of the car classifieds business, as well as its strategy to further penetrate the used car segment, which would support its medium-term growth prospects. The rating also takes into account the company's ability to attract substantial investment from reputed private equity players, who have invested over Rs 1,219.05 crore in the company over the past six years. ICRA also takes note of the company's established network, with more than eight car OEMs and its pan India new car dealer network, of over 5000 dealers, which has also led to cash breakeven in the new car business, which accounts for the bulk of the company's operating income. The rating further derives comfort from the increasing number of users accessing online portals for car reviews prior to approaching a dealer and concluding a purchase.

The rating is however constrained by the aggressive ramp up in employee base and series of acquisitions of early stage start-ups which has resulted in operating level losses although the same has been funded by fresh equity infusion from PE investors. ICRA also takes note of the increasing competition in the online auto classified segment from players like cars24, droom, cartrade (acquired carwale), etc all of which have backing from reputed private equity investors. The rating also factors in the company's recent entry into the inventory backed used car sales (from only used car classifieds earlier) exposing the company to inventory price risk, although the company's technical expertise serves to partly mitigate the risk. Also, GSPL's plans to expand the used car business is likely to strain the company's cash flows over the medium term. Also, the rating is constrained by any regulatory changes which could potentially impact GSPL's revenue streams. Also, with huge data/ information assets, theft or loss of data could severely impact the reputation and revenue streams for the company.

Going forward, GSPL's ability to demonstrate the benefits arising from its presence across the entire range of online car classifieds segment will be a key rating monitorable. Further, the performance of the used car business and its ability to ramp up operations and generate cash breakeven will be a key rating sensitivity.

## Outlook: Stable

The stable outlook reflects the strength derived out of the sizable equity infusion of Rs. 1,219.05 crore in GSPL from reputed private equity investors and proposed expansion in the under-penetrated used car business which offers immense potential for expansion. The ratings may be upgraded in case the company is able to ramp up its business across all segments, cut down its operating losses and supported by funds by way of equity infusion. Conversely, the outlook may be revised to 'Negative' in case of any delay beyond the anticipated timelines for achieving cash break even or in case of delay in ramp up of operations.

## Key rating drivers

### Credit strengths

**Established market position and diversified revenue base:** GSPL is one of the top three online auto classifieds portals in the Indian market. It has a well-diversified revenue base with presence across the entire range of car business in the online auto classifieds space, from new car segment to used car segment. Further, it has a network of more than eight car OEMs and new car dealer network, of over 5,000 dealers, across India, which provides scope for revenue expansion.

**Substantial investments from reputed PE investors:** GSPL has raised substantial investments from ten different investors including reputed names in the private equity space like Sequoia Capital, Hillhouse CD Holdings, Google Capital, who have brought in over Rs. 1,219.05 crore in multiple tranches, from November 2013 to January 2019, in the form of compulsorily convertible cumulative preference shares (CCCPS) for expansion of its service offerings.

**Favourable industry dynamics in the used car space:** The Indian market today has a fleet of over ~21 million cars and about 3.6 million used cars. With lowering ownership cycles and increased off-take of passenger vehicles from compact to utility vehicles, the market is expected to grow over three times in the next three-year period. The same is expected to provide immense potential for revenue growth for GSPL, given its value-added offerings in the used car space from pre-screening, financing, insurance and title transfer guarantee.

**Increasing proportion of online reviewers:** Over 40% of users search online before approaching a dealer and concluding a purchase, which is up from 10% users who searched online for reviews two years ago. The increasing proportion of users have aided players like GSPL to monetise such traffic and convert them to leads.

### Credit weaknesses

**Aggressive expansion plans have led to operating losses:** Aggressive ramp up in employee base and series of acquisitions of early stage start-ups has resulted in operating level losses, with OPM at -44.2% in FY2018. Also, GSPL's plans to expand the used car business which is likely to have over twenty-four months of gestation period before generating meaningful returns, is expected to strain the company's cash flows over the medium term.

**Intense competition in the industry:** The online auto classifieds industry is intensely competitive with players like cars24, droom, cartrade (acquired carwale), etc, all of which have backing from reputed private equity investors. Further, huge proportion of re-sale is driven through off-line channel on account of title transfer risk involved thereby constraining its competitive position.

**Incremental working capital requirement given its entry into inventory backed car re-sale:** GSPL's recent entry into the inventory backed used car sales (from only used car classifieds earlier) in January 2019 exposes the company to inventory price risk, although the company's technical expertise in pre-screening and evaluation enables it to procure the cars at competitive prices and provide necessary value addition, to minimize the risk.

**Exposed to risk of data theft and loss of data integrity:** Confidentiality and data integrity are critical to the operations of any online search related portal like GSPL. Any data theft or loss of data could severely impact the reputation and revenue streams for the company. Further, any adverse regulatory change can also impact the company's cash flows.

### Liquidity Position:

The company's liquidity position is comfortable with cash balances of Rs. 90.62 crore and liquid investments of Rs. 577.60 crore as on December 31, 2018.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	Consolidated

### About the company:

Girnar Software Private Limited (GSPL) was incorporated in 2006 as a software service provider and commenced providing online search related services and information about new automobiles to consumers and automobile dealers in 2008. GSPL is an online service provider and provides internet marketing and technology solutions to OEMs and dealers. The company connects automobile dealers, OEMs and customers through its own websites namely - Cardekho.com, Bikedekho.com, Pricedekho.com, and Zigwheels.com. GSPL derives revenues through lead conversion by connecting dealers and OEMs (B2B) by targeting the end customers from whom the leads are generated. Subsequently, GSPL also undertakes car financing and insurance sales. The company has also diversified into Indonesian markets where it has organised the online auto classifieds segment through its portal – Oto.com.

### Key Financial Indicators (Consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	113.9	159.2
PAT (Rs. crore)	(125.7)	(78.5)
OPBDIT/ OI (%)	-114.6%	-44.2%
RoCE (%)	-36.4%	-26.8%
Total Debt/ TNW (times)	0.0	0.05
Total Debt/ OPBDIT (times)	-0.1	-0.2
Interest coverage (times)	-932.7	-502.8

**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 Mar 2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					-	-	-
1 Compulsorily Convertible Debentures (CCDs)	Long Term	61.00	61.00	[ICRA]BBB- (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](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
INE731P08015	Long Term: CCD – 1	May 2015	0.00001%	May 2020	12.00	[ICRA]BBB- (Stable)
INE731P08023	Long Term: CCD – 2	Jan 2019	0.00001%	Jan 2029	49.00	[ICRA]BBB- (Stable)

Source: Company;

## Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Gaadi Web Private Limited	100.00%	Full Consolidation
Girnarsoft Automobiles Private Limited	100.00%	Full Consolidation
Girnar Retail Private Limited	100.00%	Full Consolidation
Carbay Pte Ltd	100.00%	Full Consolidation
PT Carbay Services Indonesia	70.00%	Full Consolidation
Advanced Structures India Private Limited	68.00%	Full Consolidation
Girnar Software (SEZ) Private Limited	100.00%	Full Consolidation
Girnar Insurance Brokers Private Limited	85.00%	Full Consolidation
Girnarsoft Education Services Private Limited	70.60%	Full Consolidation

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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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