

May 18, 2020

## Girnar Software Pvt. Ltd.: Rating reaffirmed

### Summary of rating action

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Compulsorily Convertible Debentures (CCDs)	61.00	61.00	[ICRA]BBB- (Stable); reaffirmed
<b>Total</b>	<b>61.00</b>	<b>61.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation continues to favourably factor in Girnar Software Pvt Ltd's (GSPL) established market position in the Indian online auto classifieds market with presence in both new and used cars divisions. In addition, its strategy to penetrate into the financing and insurance space for the used cars segment is expected to support its medium-term growth prospects. The Group has a strong and expanding base of registered users accessing its portals (customers, dealers, and OEMs), which is likely to drive future business growth. Moreover, a marked and gradual shift in advertising media, with advertisers moving to online channels and new media formats are likely to support the Group's near-term revenue prospects. The rating continues to note the Group's strong promoter and management team with relevant industry experience, backed by reputed private equity (PE) investors.

The rating, however, is constrained by the aggressive branding and marketing expenses, which has resulted in continued operating level losses. ICRA also notes the employee-intensive nature of business, which has constrained the Group's profitability in the absence of significant scale up of business. Moreover, the Group has adopted the auction model in the used car sales segment, which has increased its working capital requirements and also exposed it to inventory price risk. GSPL plans to expand its used car business division, which is likely to strain the Group's cash flows over the medium term. The rating considers the increasing competition in the online auto classified segment from other players, as some of these entities are backed by reputed PE investors. As a result, GSPL's services and solutions are prone to pricing competition from other incumbents. Also, the constant focus on advertising/branding, discounts/schemes and competitive trade margins remain critical for maintaining sales as well as brand recall, and reduction in any of these may impact sales.

Nonetheless, ICRA positively notes that the Group has been able to achieve cash breakeven in the new car business, and losses in other segments continue to be funded by fresh equity infusion from PE investors. The rating also factors in the competitive and dynamic nature of the industry, which exposes the players to risk of technological obsolescence and regulatory changes. This, in turn, necessitates continuous upgrade of processes and products to sustain competitive advantage, requiring regular expenditure. Moreover, with huge data/information assets, theft or loss of data could severely impact the Group's reputation and revenue streams.

The novel coronavirus (Covid-19) pandemic and the consequent lockdown has significantly impacted automotive demand with closure of auto dealers showroom from the latter half of March 2020. Thus, ICRA expects the Group's income from car sales facilitation to witness some moderation till the lockdown ends. Additionally, the adverse economic impact of the lockdown on consumer spends may crimp car sales. The eventual duration of Covid-19 and its impact on

consumer confidence are likely to determine the extent of demand fallout. In addition, the Group has sizeable used cars inventory as of March 2020. The Group's ability to liquidate the same at favourable prices, while ensuring timely realisation of receivables, would remain imperative. Nevertheless, ICRA draws significant comfort from the Group's diversified revenue streams and its recent foray into the insurance vertical, which is expected to support its near-term revenue growth. ICRA favourably notes the Group's comfortable liquidity position supported by fresh rounds of PE fund infusion, which will support it in meeting the business and financial obligations comfortably over the near to medium term. The rating also takes into account the Group's ability to attract substantial investment from reputed PE players, which have invested over Rs. 1,845 crore in it over the past seven years. Going forward, deployment plans for the liquid funds and the Group's ability to raise additional capital would be key rating sensitivities, as these would impact its liquidity profile.

## Key rating drivers and their description

### Credit strengths

**Substantial investments from reputed PE investors** – GSPL has raised substantial investments from various investors, including reputed names in the PE space such as Sequoia Capital, Hillhouse CD Holdings, Google Capital, Ping, etc. These PE investors have brought in over Rs. 1,845 crore in multiple tranches, from November 2013 to December 2019, in the form of compulsorily convertible cumulative preference shares (CCCPs) and CCDs for expansion of its service offerings.

**Significant amount of liquid investment** – The Group reported sizeable cash balances and liquid investments as on March 31, 2020, which provides a liquidity cushion. However, a portion of the liquid investment is likely to deplete to some extent to scale up the business. Further, the Group has unutilised bank limits providing sufficient cushion.

**Established market position** – GSPL is one of the top three online auto classified portals in the Indian market. It has a well-diversified revenue base with presence across the entire gamut of car business in the online auto classifieds space, encompassing both new and used car segments. Further, it offers value-added services such as insurance and financial services, which ensures customer lock-in.

**Expanding base of customers, dealers and financiers** – The increasing proportion of customers have aided players like GSPL to monetise such traffic and convert the same to leads. Further, it has witnessed an increase in dealer and OEM tie-ups, along with an increase in insurance agents. The Group has tie-ups with around 4,000 insurance agents and has around 12 financing partners.

**Favourable industry dynamics in used car space** – The Indian pre-owned car market has been continuously growing with consumers seeing value in pre-owned vehicles in the recent past. Further, with transition to BS-VI, the price differential between used and new cars is likely to go up, which is expected to drive growth in the used car segment. Nonetheless, the economic impact of the ongoing lockdown on consumer spends may crimp car sales, since automobile purchase falls under discretionary spending.

### Credit challenges

**Exposure to slowdown in automobile sector and other exogenous shocks** – The Group remains exposed to exogenous shocks such as the Covid-19 pandemic, which is expected to adversely impact near-term automotive demand. Over the last few quarters, the automotive industry has been experiencing slowdown across all segments, which is likely to weigh on the Group's performance.

**Continued cash losses** – GSPL has pursued an aggressive expansion strategy, which is reflected in the brisk pace of its employee and marketing expenditure over the past few years, resulting in continued operating level losses. Further, its strategy to penetrate the used car segment, which is still in the nascent stage, has led to cash losses. Nevertheless, these losses have been funded through fresh equity infusion from PE investors. Further, the Group’s plan to foray into NBFC business is expected to strain its cash flows over the medium term.

**Intense competition in industry** – The online auto classifieds industry is intensely competitive with players such as Cars24, Droom, CarTrade (acquired Carwale), etc., all of which have backing from reputed PE investors. Moreover, with OEMs and auto dealers launching their own digital sales platform, the competition may intensify. Further, a huge proportion of re-sales is driven through the offline channel on account of the title transfer risk involved, thereby constraining GSPL’s competitive position.

**Increasing working capital requirements** – The Group has entered the auction model in the used car sales segment, which has increased its working capital requirements and also exposed the Group to inventory price 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 Group’s reputation and revenue streams. Further, any adverse regulatory change can also impact its cash flows. However, the company has not witnessed any such instances in the past due to strong IT system.

### Liquidity position: Adequate

The Group’s liquidity is expected to remain **adequate**. It has limited debt repayments, which can be serviced comfortably by the healthy current investments. Further, even though the working capital requirements are likely to increase, its significant cash balance and liquid investments offers comfort, which would support in meeting funding gaps, if any. Going forward, deployment plans for these funds would be a key rating sensitivity, as it would impact the liquidity profile significantly, and hence would be monitored.

### Rating sensitivities

**Positive triggers** – ICRA could upgrade the rating if there is a recovery in the overall industry demand and abatement of the Covid-19 pandemic. Besides, the Group’s ability to reduce operational losses and report positive OBIDTA, while generating adequate cash flows to meet its recurring expenditure requirements and debt service obligations would be the key upgrade triggers.

**Negative triggers** – ICRA could downgrade the rating if the Group is unable to reduce its operating losses resulting in further deterioration in its liquidity position. In addition, any depletion in the value of its liquid investments exerting pressure on the Group’s liquidity may warrant a rating review.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of GSPL. Refer <a href="#">Annexure-2</a>

## About the company

Incorporated in 2006 as a software service provider, GSPL started providing online search-related services and information about new automobiles to consumers and automobile dealers in 2008. It is an online service provider offering internet marketing and technology solutions to OEMs and dealers. The Group connects automobile dealers, OEMs and customers through its own websites namely — Cardekho.com, Trucksdekho.com, Bikedekho.com, Pricedekho.com, gaadi.com and zigwheels.com to name a few. GSPL derives revenues through lead conversion by connecting dealers and OEMs (B2B) by targeting the end-customers generating the leads. Subsequently, it undertakes car financing and insurance sales. GSPL's Group company, GIBPL, is an IRDA registered insurance broker. The Group operates under the used car segment. The Group has also diversified business into the Indonesian market, where it has organised the online auto classifieds segment through its portal – Oto.com. In addition, in November 2019, the Group acquired Carmudi (leading new auto player in the Philippines) to enter the Philippines market.

## Key financial indicators (audited)

<b>GSPL (Consolidated)</b>	<b>FY2018</b>	<b>FY2019</b>
Operating Income (Rs. crore)	159.2	265.2
PAT (Rs. crore)	(78.5)	(128.0)
OPBDIT/OI (%)	-44.2%	-47.5%
RoCE (%)	-26.8%	-22.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.2
Total Debt/OPBDITA (times)	0.0	-0.2
Interest Coverage (times)	-502.8	-36.3
DSCR	-471.6	-29.9

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					18-May-2020	-	20-Mar-2019	-
1	Compulsorily Convertible Debentures (CCDs)	Long Term	61.00	61.00	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	-

Amount in Rs. crore

### 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: GSPL

### 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 <sup>1</sup>	100.00%	Full Consolidation
Carbay Pte Ltd	100.00%	Full Consolidation
PT Carbay Services Indonesia	70.00% <sup>2</sup>	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% <sup>3</sup>	Full Consolidation
Girnarsoft Education Services Private Limited	70.57% <sup>4</sup>	Full Consolidation
Powerdrift Studios Private Limited <sup>5</sup>	100.00%	Full Consolidation

As on March 31, 2019

<sup>1</sup>Name changed to Girnar Care Private Limited in September 2019

<sup>2</sup>Changed to 100% in September 2019

<sup>3</sup>Changed to 70% in July 2019

<sup>4</sup>Changed to 67.56% in May 2019

<sup>5</sup>Acquired on June 14, 2018

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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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