

October 08, 2020

FCM Travel Solutions (India) Private Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based/Non-Fund Based	147.56	147.56	[ICRA]A-(CE) (Negative)/[ICRA]A2+(CE); ratings reaffirmed, and outlook changed from Stable to Negative
Fund Based – Cash Credit	15.00	15.00	[ICRA]BBB (Negative); rating reaffirmed and outlook changed from Stable to Negative
Non-Fund Based	25.00	25.00	[ICRA]A3+; Reaffirmed
Total	187.56	187.56	

Rating Without Explicit Credit Enhancement

[ICRA]BBB/A3+

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the [ICRA]A-(CE) (Negative)/[ICRA]A2+ rating

The above rating is based on the strength of the corporate guarantee provided by Flight Centre Travel Group Ltd (FCTG), the ultimate parent of FCM Travel Solutions (India) Private Limited (FCM), for the rated bank lines. The Negative outlook on this rating reflects ICRA's outlook on the credit profile of the guarantor, FCTG. The revision in outlook from Stable to Negative reflects the likely impact of the Covid-19 pandemic on FCTG's credit profile, given the adverse effect of the Covid-19 pandemic on the global travel and tourism industry. In the year that ended in June 2020, FCTG's scale declined by ~38% on a YoY basis, while the operating margins turned negative in the year due to the adverse impact of the pandemic on the industry.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach, whereby the rating of the guarantor has been translated to the rating of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by FCTG is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]A-(CE)/[ICRA]A2+(CE) against the rating of [ICRA]BBB/[ICRA]A3+, without explicit credit enhancement. In case the credit profile of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants related to the credit enhancement, as specified in the guarantee documents

- Gearing not to exceed 2 times and
- Interest cover not to fall below 1 times

For the [ICRA]BBB(Negative)/[ICRA]A3+ ratings

The change in outlook on the long-term rating of FCM reflects the likelihood of extensive and extended impact of the Covid-19 pandemic on the global travel and tourism industry and is in line with ICRA's Negative outlook for the sector. ICRA expects that prolonged averseness to travel—voluntary or owing to Government restrictions—due to the pandemic would result in subdued billings across airlines, hotels and other tour operations, resulting in deterioration of the company's scale and margins in the near to medium term. The travel business remains susceptible to several factors such as economic downturns, exogenous events and various geo-political factors. The ratings remain constrained by the fragmented and competitive nature of the tourism industry with the presence of many large organised and unorganised players, as well as various online travel agencies (OTA). This puts pressure on FCM's return indicators as well as margins and has resulted in losses in the past. The ratings are constrained by FCM's exposure to adverse foreign exchange fluctuations.

The above ratings, however, favourably factor in the strong operational and financial support provided to FCM by its ultimate parent, FCTG, as well as the synergies that the company derives from its association with FCTG, one of the world's largest travel agency groups. The ratings factor in FCM's healthy operating profile, characterised by its strong presence in the corporate and business travel segments and the wide range of services provided by the company, which provide cross selling opportunities. ICRA takes note of the company's established client base including many reputed corporates and its long-term client relationships, which have helped it to maintain healthy revenue growth and provide good revenue visibility. The ratings derive comfort from the company's lightly leveraged capital structure and its comfortable liquidity profile, characterised by healthy cash balances and buffer available in its working capital borrowings and no major debt repayments.

Key rating drivers and their description

Credit strengths

Extensive management experience backed by strong Group support – FCM is a wholly-owned subsidiary of FCM Singapore Pte Ltd and the ultimate parent of the company is Flight Centre Travel Group Ltd (FCTG). FCTG was formed in 1982 and is involved in corporate travel, leisure and wholesale travel bookings and is one of the largest travel agency groups in the world. FCM handles the corporate travel solutions of the Group in India and the directors of the company have experience of more than two decades in the tourism and travel industry. It derives support from FCTG in the form of corporate guarantees and other need-based support- operational and technological. It benefits from the synergies derived from the parent. The support from the parent has also been evidenced in the form of equity infusion in the past.

Wide range of travel service offerings and long-term relationships with reputed corporate – FCM is involved in providing complete travel solutions to its clients. It develops and manages various travel programmes for corporate and leisure purposes, manages hotel accommodation as well as air tickets and provides various other transactional services. The diversified offerings help in avoiding segmental concentration and provide opportunities for cross selling of services. The company's customer profile includes many large corporates with which it has long-term relationships, which provides revenue visibility.

Lightly leveraged capital structure supports financial risk profile; liquidity remains comfortable – The company's financial risk profile is supported by its increased net worth and reduced debt, which has kept its gearing at low levels – 0.14 times and 0.002 times, as on March 31, 2019 and March 31, 2020, respectively. Furthermore, its liquidity profile is adequate due to low to almost nil working capital utilisation and healthy cash balances.

Credit challenges

Extensive impact of Covid-19 pandemic on revenues and profitability – Given the discretionary nature of spending in the travel segment and prolonged averseness to travel—voluntary or owing to Government restrictions, following the Covid-19 pandemic, ICRA expects significant pressure on the FCM’s gross billings in the hotels, airlines and other tour operations during the next few quarters, thus putting pressure on its revenues and profitability.

Fragmented nature of travel and tourism industry coupled with intense competition – FCM operates in an intensely fragmented industry comprising both organised and unorganised players. This, together with low product differentiation and low entry barriers, increased the competition in the industry, thus affecting the revenues as well as profit margins and resulted in losses in the past. Moreover, FCM’s scale of operations remains moderate. The company operates in the travel and tourism industry and its operations are vulnerable to external events and geo-political risks.

Exposure to foreign exchange currency fluctuation risk – As FCM provides services in both domestic and international markets, its revenues are exposed to the risk of foreign exchange fluctuations, whereby high volatility in exchange rates might affect the receivables. Thus, the company’s ability to manage its forex exposure through forward contracts is critical.

Liquidity position

For the [ICRA]A-(CE) (Negative)/[ICRA]A2+ ratings: Adequate

FCTG’s liquidity position is **adequate** characterised by cash and liquid investments of AUD 1867 million as on June 30, 2020.

For the [ICRA]BBB(Negative)/[ICRA]A3+ ratings: Adequate

FCM’s liquidity is **adequate** with presence of sizeable cash and liquid investments of ~Rs. 75.26 crore as on March 31, 2020 and nil utilisation of working capital limits for six-month period ending in August 2019, thus providing considerable buffer. Moreover, the company does not have any major long-term debt repayments.

Rating sensitivities

For the [ICRA]A-(CE) (Negative)/[ICRA]A2+ rating

Positive triggers – An upgrade in the near term is unlikely, given the Negative outlook on the industry, driven by severe impact of the Covid-19 pandemic on the travel and tourism business. Nevertheless, sustained improvement in the industry scenario and credit profile of the guarantor FCTG and any change in extent of support to FCM by FCTG could trigger for a change in outlook.

Negative triggers – A negative rating action could be triggered if there is any change in the FCTG’s ability to support the company, or if a material deterioration in the parent’s credit metrics or if there is deterioration in the extent of support to FCM by FCTG.

For the [ICRA]BBB(Negative)/[ICRA]A3+ ratings

Positive triggers – An upgrade in the near term is unlikely, given the Negative outlook on the industry, driven by severe impact of the Covid-19 pandemic on the travel and tourism business. Nonetheless, a sustained improvement in the industry environment and FCM’s operational metrics and profitability indicators following the pandemic could be a trigger for a change in outlook.

Negative triggers – Negative pressure on FCM’s ratings could arise from deterioration of its credit profile, sustained pressure on its earnings and profitability due to the Covid-19 pandemic, along with weakening in the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent/Group Company: Flight Centre Travel Group Ltd The ratings assigned to the bank facilities of FCM factor in the likelihood of its ultimate parent FCTG, extending financial support to it due to its strategic importance. There also exists a track record in the past, of FCTG having provided financial support to FCM, when the need has arisen. The ratings on the Rs. 147.56-crore bank facilities of FCM are based on explicit support from the ultimate parent.
Consolidation/Standalone	Standalone

About the company

FCM was incorporated in 1997. It handles the corporate travel solutions business of FCTG for India and is involved in providing end-to-end solutions in business travel and expense management. It develops and manages travel programmes for corporate and leisure purposes, manages air travel bookings, hotel accommodation, business travel insurance, and holiday travel packages. It also provides transactional services such as passport and visa facilitation, immigration support services, foreign exchange, airport assistance, and offers solutions for meetings, incentives, conferences, and events (MICE).

Key financial indicators

	FY2019 Audited	FY2020 Provisional
Operating Income (Rs. crore)	203.81	211.97
PAT (Rs. crore)	4.62	1.03
OPBDIT/OI (%)	7.30%	10.37%
RoCE (%)	8.77%	5.75%
Total Outside Liabilities/Tangible Net Worth (times)	1.27	0.58
Total Debt/OPBDIT (times)	1.82	0.02
Interest Coverage (times)	1.16	2.05

Source:FCM

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
					8-Oct-20	26-Feb-20	-	-
1	Fund-based/Non-Fund-based	Long Term/Short Term	147.56	-	[ICRA]A-(CE) (Negative)/[ICRA]A2+(CE)	[ICRA]A-(CE) (Stable)/[ICRA]A2+(CE)	-	-
2	Fund based- Cash Credit	Long Term	15.00	-	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	-	-
3	Non-Fund based	Short Term	25.00	-	[ICRA]A3+	[ICRA]A3+	-	-

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

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based- Cash Credit	NA	NA	NA	15.00	[ICRA]BBB (Negative)
NA	Non-Fund Based-Bank Guarantee	NA	NA	NA	25.00	[ICRA]A3+
NA	Fund based/Non-Fund Based	NA	NA	NA	147.56	[ICRA]A-(CE) (Negative) / [ICRA]A2+(CE)

Source: FCM

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

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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.

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