

Rating Rationale

December 21, 2023 | Mumbai

Carzonrent India Private Limited

Long-term rating reaffirmed at 'CRISIL BB/Stable'; 'CRISIL A4+' reassigned to short-term bank debt

Rating Action

Total Bank Loan Facilities Rated	Rs.8 Crore (Reduced from Rs.17.48 Crore)
Long Term Rating	CRISIL BB/Stable (Reaffirmed)
Short Term Rating	CRISIL A4+ (Reassigned)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its rating on the long term bank facilities of Carzonrent India Private Limited (CIPL) at 'CRISIL BB/Stable' while reassigning its '**CRISIL A4+**' rating to the short term bank facilities of CIPL. CRISIL Ratings has also **withdrawn** its rating on Rs.9.48 crore bank loan facilities, at the company's request and on receipt of 'No Objection Certificate/ Revised sanction letters' from lenders. The withdrawal is in line with CRISIL Ratings' withdrawal policy.

The revenue of the company grew significantly in fiscal 2023, albeit on a low base of pandemic impacted fiscal 2022. The growth, however, was marginally lower than earlier expectations. Consequently, the operating profitability in fiscal 2023 stood at a modest level of 3.2%. The operating performance moderated in the current fiscal with revenue of ~Rs 54 crores in H1 fiscal 2024, ~7% lower than H1 fiscal 23.

The operating margins of the company turned negative to -2.6% in H1-FY24 compared to positive 3.2% in fiscal 2023 on account of reduction in revenue and high operating leverage. In the current fiscal, the company has discontinued some low margin contracts which resulted in lower-than-expected revenue. The management has articulated that the company has onboarded new customers with better margins which is expected to provide significant revenue in H2 fiscal 24, which will also help in material improvement in profitability. Going forward, significant improvement in operating profitability and consequent healthy financial performance for fiscal 2024 will remain a key monitorable.

The rating factors in the comfortable financial risk profile characterised by low debt, adequate liquidity, and no major capex plans in the medium term. The gearing has decreased to 0.75 times in fiscal 2023 from 0.97 times in fiscal 2022. The interest coverage has improved to 1.78 times in fiscal 2023 from negative 1.24 times in fiscal 2022. Going forward, these metrics are expected to improve with reduction in term debt and no plans to take additional debt in the medium term.

The company has taken several measures to operate on an asset light model which provides cost efficiency and flexibility. Additionally, the company has launched an inhouse pro-SAS software for fleet management of EVs. All these may yield benefits over the medium term.

The rating reflects the established market position of CIPL in the domestic corporate car rental segment, and extensive experience of the promoters. These strengths are partially offset by modest profitability and exposure to competition.

Analytical Approach

CRISIL Ratings has considered the standalone business and financial risk profiles of CIPL.

Key Rating Drivers & Detailed Description

Strengths:

Established market position in the domestic corporate car rental industry

Backed by an established market position in the corporate car rental segment, the company has grown in terms of geographical reach and new customers over the past decade. The company demerged its self-drive business in October 2018 into a wholly owned subsidiary, Myles Automotive Technologies Ltd, and subsequently sold its entire shareholding in September 2019. It now operates solely in the car rental segment, where most of the customers are large corporates.

Operating income has improved in fiscal 2023 post the hit in the prior two fiscals due to covid; however, it is still below the pre-pandemic levels. The performance in fiscal 2023 was broadly in line with the CRISIL estimates. The company acquired several customers in the first half of fiscal 2024 and will likely continue to do so in the second half; this is expected to lead to an improvement in revenue over the medium term. Moreover, the company has launched software for better fleet management and other allied services. With an operating fleet of 8000+ vehicles pan-India and healthy relationships with large corporates, the market position is expected to remain adequate over the medium term.

Extensive experience of the promoters

The promoters have experience of over two decades in the car rental industry, which has led to the company's strong industry position and longstanding relationships with key stakeholders. The promoter and his family members continue to be closely involved in the day-to-day operations of the company.

Weakness:

Modest profitability performance

The company achieved operating profits in fiscal 2023 as against losses for the prior two fiscals; however, it remains below pre pandemic levels as well as lower than earlier expectations. Due to realignment in the client portfolio, the profitability performance again moderated in fiscal 2024 as reflected in operating losses. While the profitability performance for the complete fiscal 2024 is expected to be materially lower than earlier estimates, the second half is expected to report a healthy improvement and hence it remains a key monitorable.

Exposure to intense competition from newer players

Over the past few years, operators in the radio taxi business have seen intense competition from relatively newer aggregators, such as Uber and Ola. This had adversely impacted the radio taxi business of CIPL (Easy Cabs), and the company discontinued its operations in fiscal 2017. Competition from private-equity-funded players had also precluded growth in revenue and profitability in the self-drive car rental segment, which is now a separate entity. Though competition has moderately impacted the car rental business, CIPL has built a healthy clientele over the past decade and has invested in technology and customer acquisition to competently deal with competition. The company has added multiple customers during fiscal 2022, and this is expected to increase the scale of operations. However, the company's ability to improve its market position in the car rental business will remain a key rating sensitivity factor.

Liquidity: Adequate

Average utilisation of fund-based limit of Rs 11 crore remained less than 10% over the 6 months ended Nov 2023. Cash and equivalents and unutilised bank lines aggregating Rs 9.85 crore as of Nov 30, 2023 should sufficiently cover the debt obligation in the absence of any major debt-funded capex.

Outlook: Stable

CRISIL Ratings believes CIPL will continue to benefit from the extensive experience of the promoters and established relations with clients.

Rating Sensitivity Factors

Upward Factors

- Significant improvement in scale of operations as reflected by healthy revenue growth on a sustained basis
- Sustained improvement in operating profitability above 8-10% leading to increase in net cash accruals

Downward Factors

- Lower-than-expected improvement in revenue or profitability remaining below 5% leading to subdued cash accrual
- Higher-than-expected debt leading to gearing remaining elevated or weakening of the debt protection metrics

About the Company

CIPL was incorporated in 2000 by Mr Rajiv Vij as a first-generation entrepreneur. The company provides car rental services to large corporates besides operating at major airports, leveraging its technology strengths for enhanced customer experience. The company's operating lease business was acquired by Sumitomo Corporation in fiscal 2015. The company also offered radio taxi services till 2017. Around 70% of the equity shares are held by the promoter, family and friends and 30% by the private equity investors WestBridge Venture II Investment Holdings and BTS Advisors.

Key Financial Indicators*

As on/for the period ended March 31,	Units	2023	2022
Operating income	Rs.Crore	119	61
Profit after tax (PAT)	Rs.Crore	2.0	-3.5
PAT margin	%	1.7	-5.7
Adjusted debt/adjusted networkth	Times	0.75	0.97
Interest coverage	Times	1.78	-1.24

*As per analytical adjustments made by CRISIL Ratings

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Levels	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	2.00	NA	CRISIL BB/Stable
NA	Cash Credit	NA	NA	NA	2.00	NA	CRISIL BB/Stable
NA	Bill Discounting	NA	NA	NA	1.00	NA	CRISIL A4+
NA	Proposed Cash Credit Limit	NA	NA	NA	3.00	NA	CRISIL BB/Stable
NA	Cash Credit	NA	NA	NA	6.00	NA	Withdrawn
NA	Proposed Cash Credit Limit	NA	NA	NA	3.00	NA	Withdrawn
NA	Term Loan	NA	NA	NA	0.48	NA	Withdrawn

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	17.48	CRISIL BB/Stable / CRISIL A4+		--	01-11-22	CRISIL BB/Stable	24-08-21	CRISIL BB+/Stable	28-05-20	CRISIL BB+/Stable	CRISIL BB+/Stable
Non-Fund Based Facilities	ST		--		--		--		--	28-05-20	Withdrawn	CRISIL A4+

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bill Discounting	1	RBL Bank Limited	CRISIL A4+
Cash Credit	4	RBL Bank Limited	Withdrawn
Cash Credit	2	HDFC Bank Limited	Withdrawn
Cash Credit	2	RBL Bank Limited	CRISIL BB/Stable
Cash Credit	2	Canara Bank	CRISIL BB/Stable
Proposed Cash Credit Limit	3	Not Applicable	Withdrawn
Proposed Cash Credit Limit	3	Not Applicable	CRISIL BB/Stable
Term Loan	0.48	ICICI Bank Limited	Withdrawn

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for rating short term debt

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