Hitachi Payment Services Private Limited

January 9, 2017

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Non Convertible Debentures	120	**CARE AA (Double A) (Credit watch with developing implications)**	Placed on credit watch with developing implications
Total Instrument	**120 (Rupees One Hundred Twenty crore only)**		

Details of instruments/facilities in Anneuxre-1

CARE has placed the ratings assigned to the instrument of Hitachi Payment Services Private Limited on Credit Watch with developing implications owing to the uncertainty with respect to the outcome of the ongoing audit being undertaken by an approved forensic auditor for any compromise in Automated Teller Machine (ATM) Switch and the impact of Demonetisation on the revenue and profitability of the company. CARE is monitoring the developments in this regard and will take a view on the ratings once the exact implications of the above developments on the company are clear.

The rating assigned to the proposed Non-convertible Debentures of Hitachi Payment Services Private Limited (HPY) continues to build in its strong parentage, with Hitachi Limited (HIL), Japan, being the ultimate parent company of HPY, HPY's importance to HIL and the operational, managerial and financial linkages with the Hitachi Group. The rating on HPY benefits from HIL's strong credit profile, being a multinational conglomerate having a diversified business portfolio, established technological base and comfortable financial profile. CARE expects HIL to support HPY operationally and financially as and when necessary. This understanding is central to rating on HPY.

The rating also factors robust growth in HPY's operations despite being a late entrant in the Automated Teller Machine (ATM) & Point of Sales (POS) payment services business in India and a favourable demand potential for the ATM and POS business in India.

The rating strengths are, however, tempered due to, moderate return indicators as majority of HPY's revenue originates from the Independent ATM Deployment (IAD) model which involves significant upfront investment and a relatively long gestation period accompanied by debt funded expansion plans leading to a leveraged capital structure.

Change in the credit profile of HIL or any change in the articulation of support by HIL to HPY is the key rating sensitivity.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

HPY is a step-down subsidiary of HIL. HIL, incorporated in February 1920; headquartered in Tokyo, Japan, is a global electronics company having approximately thousand group companies across the globe. The company offers a diversified product mix ranging from electricity generation systems to consumer products, including electronic devices and provision of services across ten segments. The Information & Telecommunication Systems (ITS) segment (which includes the ATM business) contributes the highest share (19%) to the revenues. During FY16 (refers to the period April 1 to March 31), HIL's consolidated revenue stood at 10,034 billion yen with a net income of 294 billion yen. HPY forms a part of HIL's ITS division which contributes the highest share around (19%) to the revenues of HIL. HIL plans to leverage the expertise and infrastructure of HPY to expand its operations in the Asian subcontinent with the epicenter of growth being India.

HPY derives support from HIL on multiple levels which is summarised as follows:

1) The key management personnel of HPY also include representatives of HIL to help with decision making.
2) HPY has entered in to long term contract with associate concerns among other vendors for supply of ATM machines and other equipment for installation of ATMs in the country.
3) HIL has also extended financial support to HPY by allowing the use of common bank lines within the various group companies

CARE also believes that HIL is committed to provide financial assistance to HPY if needed which is central to rating on HPY.

HPY presently is one of the leading players engaged in providing ATM deployment, management and processing services with total network of over 50,000 ATMs, over 250,000 Point Of Sales (POSs) and 70,000 Mobile Point of Sales (MPOSs) devices in the country.

During the last year, the company signed new contracts with various banks to deploy and manage additional ATMs which will be done with the help of external debt and financial lease leading to overall increase in bank borrowing and leveraged capital structure. With the ramp up in deployment of ATMs, profitability indicators have also witnessed a decline, owing to higher fixed overheads.

Analytical Approach followed

CARE has arrived at the ratings based on the operative, financial and managerial linkages of HPY with its ultimate parent company, Hitachi Limited Japan (HIL) and importance of HPY in terms of business growth and expansion to HIL. CARE has also considered the financial strength of HIL and its track record of supporting its subsidiaries.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[Rating Methodology: Factoring Linkages in Ratings]
[Financial ratios – Non-Financial Sector]
[CARE's methodology for Service Sector Companies]
[CARE's Criteria for instruments on credit watch]

Company Background

HPY (CIN U72100TN2005PTC057463) (formerly known as Prizm Payment Services Private Limited) was incorporated in September 2005 as a private limited company under the name "Integrated Maintenance and Services Private Limited". In FY14, Prizm Payment Services Private Limited was acquired by HIL. Consequent to the acquisition, on April 10, 2015, the name of the company was changed to "Hitachi Payment Services Private Limited."

HPY is one of the leading players engaged in providing ATM deployment, management and processing services to banks and financial institutions. HPY also operates in other segments such as Point Of Sale management business. However, the ATM business has been a dominant segment. HPY has also commenced the deployment and management of operations of White Label ATMs (owned and operated by the company) in India during FY14. HPY has installed and currently manages over 50,000 ATMs, over 250,000 Point Of Sales (POSs) and 70,000 Mobile Point of Sales (MPOSs) devices in the country.

Based on Audited financial, PAT of HPY stood at Rs. 21 crore on total operating income of Rs. 1,119 crore in FY15.

Status of non-cooperation with previous CRA: Not applicable

Rating History (Last three years): Please refer Annexure-2

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CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an *External Credit Assessment Institution (ECAI)* by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1

Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-Convertible Debentures	November 4, 2015	8.30%	November 4, 2020	120.00	CARE AA (Under Credit Watch with developing implication) (Double A) (under credit watch with developing implication)

Annexure-2
Rating History (Last three years)

Sr. No.	Name of the Instrument	Current Ratings			Chronology of Rating history for past three years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date & Rating assigned in 2015-2016	Date & Rating assigned in 2014-2015	Date & Rating assigned in 2013-2014
1	Debentures-Non-Convertible Debentures	LT	120.00	CARE AA (Under Credit Watch with developing Implication)	CARE AA (October 30, 2015)	NIL	NIL

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