Tek Travels Private Limited

January 24, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term/Short-term Bank Facilities	173 (enhanced from Rs.125 crore)	CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Rating reaffirmed and outlook revised from Positive to stable
Long term Bank Facilities	10 (reduced from Rs.14.50 crore)	CARE BBB+; Outlook: Stable (Triple B Plus; Outlook: Stable)	Rating reaffirmed and outlook revised from Positive to stable
Total Facilities	183.00 (Rs. One hundred and eighty three crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of Tek Travels Private Limited (TTPL) continue to take into account the experienced promoters and management team, well established market position in the airline ticketing and hotel segment backed by a comprehensive product portfolio, presence in several countries, continuous increase in scale of operations and healthy capital structure with no long-term debt. However, the ratings are constrained by cyclical nature of business, susceptibility of profit to volatility in foreign exchange currency risk, and highly competitive and fragmented nature of tourism industry, leading to intense competition.

Rating Sensitivities

Positive Factors

- Increase in scale of operations with Total income above Rs.750 crore and profit before interest, lease, depreciation and taxes (PBILDT) of 15% while maintaining moderate non fund based and fund based utilization levels.

Negative Factors

- Decline in net profit margin below 5% levels
- Decline in GMV and squeeze in commission income / GMV to below 3.5%

Outlook: Stable

The outlook has been revised to stable from positive on account of lower than expected operating and financial performance in FY19.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team: Mr Ankush Nijhawan, co-founder of TTPL, is a BBA graduate from Boston and he majored in marketing and psychology. Mr. Gaurav Bhatnagar, chief technology officer and co-founder of TTPL is a computer science graduate from IIT Delhi. The extensive experience of the promoters in travel industry and IT companies has helped the company to ramp up its operations profitably.

In July 2019, Standard Chartered Financial Holdings transferred its 31.92% stake in TTPL to Augusta TBO (Singapore) PTE Limited, part of Affirma Capital, which completed its management buyout (MBO).

Well-established market position in the airline ticketing and hotel segment and presence in several countries: TTPL group has a well-established market position in the airline ticketing segment and hotel segment as the company has presence in more than 100 countries. It currently services over 60,000 travel agents and has tie up with more than 7 lakh hotels. Although company has a presence in several countries majority of the GMV is concentrated in its Indian and Dubai operations. In FY19, TTPL group earned 80.72% (PY: 84.64%) of its consolidated Gross Merchandise Value (GMV) from operations in India while GMV from Dubai entity increased to 15.34% in FY18 to 19.29% in FY19. Other than India, TTPL group has presence in other countries mainly Saudi Arabia, UAE, Kuwait, Qatar, Brazil, Egypt, China.

Diversified revenues from different lines of business: During FY19, TTPL realized 56% of its revenues from airline ticketing business and balance from hotel reservation business. The company earned 82% of the revenue in the form of commission on its airline ticketing and reservation business. The company generated revenue of Rs. 6.95 crore by rendering technical

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

services like portal services. The company also earned income from unclaimed airline funds written back and revenue from creditcard cash back.

Increasing scale of operations though moderation in net profitability in FY19: Gross Merchandise Value (GMV) of TTPL on consolidated basis increased by 31.9% Y-o-Y to Rs. 8,991 crore during FY19 primarily on account of 52% growth in hotel segment while growth in airline business segment stood at 25% in FY19. The air business contributed 71% (PY: 75%) of the total GMV. The group has increased its operations in Dubai entity with hotels business increasing by 61% to Rs.1689 crore in FY19 and there is commencement of air ticketing business in Dubai entity in FY19. Total income increased by 28% y-o-y to Rs.447.89 crore in FY19. In FY19, TTPL did not recognize revenue of Rs.9 crore of performance linked incentives from Jet Airways (India) Limited considering the position of Jet Airways (India) Limited. The profitability of the company was hit in FY19 with decline in profit before interest, lease, depreciation and taxes (PBILDT) from Rs.59 crore in FY18 to Rs.47 crore in FY19 on account of provision for advance (TCS and advances due from Jet Airways) of Rs.3.5 crore, one-time bonus of Rs.6 crore paid to the directors and foreign exchange loss of Rs.2.50 crore in FY19 as against profit on foreign exchange translation and transaction of Rs.0.55 crore, and increase in other expenses. This led to dip in PBILDT margin in FY19 to 10.51% (PY: 16.84%). In H1FY20, the company earned revenue of Rs.298 crore (H1FY19:Rs.219 crore) and PBILDT of Rs.47.02 crore (Rs.18 crore in H1FY19) on account of higher growth in air ticketing business due to some players not performing well in travel segment and company grabbing the market share of those players and increase in International hotel business which is driving higher margins and better profitability.

Healthy capital structure with no long term debt and low working capital utilization: TTPL has no term loan facility on its books since 2013. The fund-based working capital utilization of TTPL remains low at 1.3% for trailing twelve months ended September 2019. The utilization of Non fund based limits stood at an average level of 60.5% for the last 12 months ending September 2019. The utilization has increased from May – Sep 2019 on account of increase in GMV from airline vertical leading to higher requirement of bank guarantees (BG) given to IATA as well as higher bank guarantee for its hotel business. Total outside liabilities to networth rose up from 3.39x as on March 31, 2018 to 4.44x as on March 31,2019 on account of increase in creditors and advances from customers. The interest and finance charges (which include BG charges and interest expense for overdraft facilities) declined to Rs.3.6 crore for FY19 (PY: Rs. 5.81 crore) due to lower utilization of limits. PBILDT Interest coverage ratio improved to 13.05x for FY19 (PY: 10.17x). Bank Guarantees issued by TTPL stood at Rs. 110.70 crore as on Dec 31, 2019.

Key Rating Weaknesses

Highly competitive and fragmented nature of tourism industry leading to intense competition: The Indian tours and travels industry is highly fragmented, with a large number of small unorganised tour operators as well as established players, ie, MakemyTrip, Expedia, D’Pauls among others resulting in intense competition within the tourism space. However, comfort can be derived from the well-experienced management team and established brand presence of TTPL.

Susceptibility of profit to volatility in foreign exchange currency risk: TTPL had nearly 71% of the business (GMV) from air ticketing in FY19 and balance was from Hotel reservation segment. The payment for air ticketing is made in Indian rupee to IATA and airlines. In hotel reservation business from India which account for 10% of total GMV, approximately 50% payment is done in Indian rupee to suppliers and balance payment is mainly done in US Dollar. The payment received from agents in both air ticketing and hotel reservation is in Indian rupee. The timing mismatch poses a foreign exchange volatility risk which company has been mitigating through hedging approximately 80% its net exposure by buying forwards.

Liquidity: Adequate

TTPL does not have term loan facility. TTPL has overdraft facility of Rs.10 crore which can be availed against the cash margin of 50% of the limit. The utilization of the same stood low at an average level of 1.3% for the last 12 months ending September 2019. Furthermore, company has Rs.173 crore BG limits for which company keeps cash margin of 40%. The utilization of the non fund based limits stood at an average level of 60.5% for the last 12 months ending September 2019. The bank balance of Rs.245.80 cr. as on March 31, 2019. (PY: Rs.170 crore) primarily consists of bank balance in current account of Rs.224.5 crore. TTPL had debtors of Rs. 379.99 crore and creditors of Rs.502 crore and advance from customers of Rs.90.87 crore as on March 31, 2019. The company has low capex requirements which are funded by internal accruals. The current ratio for the period ended March 31, 2019 is 1.15x (PY: 1.20x).

Analytical approach: Consolidated

Since, TTPL and its subsidiaries are into similar line of business with a common management, a consolidated approach has been considered in credit risk assessment.

Applicable Criteria
[Criteria on assigning Outlook and credit watch to Credit Ratings]
[Factoring Linkages in Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology-Service Sector Companies]
[Financial ratios – Non-Financial Sector]

About the Company
Tek Travels Pvt Ltd (TTPL), founded in 2006 by Mr. Ankush Nijhawan and Mr. Gaurav Bhatnagar, operates online platforms- Travelboutiqueonline.com (TBO) has diverse product offerings which include airline reservation, hotel reservation, holiday package deal, rail travel and travel insurance. The company offers services in business to business (B2B) segment. It is an International Air Transport Association (IATA) registered ticketing agency. Travel Boutique Online (TBO) portal earns majority of the revenue from airline ticketing and hotel reservation. TTPL has one wholly owned subsidiary in Dubai (started in 2012) and indirectly owns 100% stake in Brazilian (started in 2016), Netherlands, Hongkong and Sinagpore (started in 2019) entities subsidiaries. These companies run online hotel portals. The total Gross Merchandise Value (GMV) earned by TTPL from Indian entity in FY19 was Rs.7,257 crore (PY: Rs.5,769 crore) and from Dubai subsidiary (on consolidated basis) was Rs.1,734 crore (PY: Rs.1,046crore). Tek Travel DMCC (wholly owned subsidiary in Dubai) commenced online airline ticketing in FY19.
As on July 31, 2019, Augusta TBO Singapore PTE held 31.92% stake, LAP Travel Private Limited held 25.01% stake, TBO Korea Holdings Limited held 18.07% stake, and balance stake held by other individual co-founders in the company.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	349.84	447.79
PBILDT	59.09	47.05
PAT	35.56	27.93
Overall gearing (times)	-	-
Interest coverage (times)	10.17	13.05

A: Audited

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

Any other information: *Not Applicable*

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	-	173.00	CARE BBB+; Stable / CARE A2
Fund-based - LT-Bank Overdraft	-	-	-	-	10.00	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	173.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Positive / CARE A2 (13-Dec-18)	1)CARE BBB+; Stable / CARE A3+ (10-Nov-17) 2)CARE BBB; Stable / CARE A3 (28-Apr-17)	1)CARE BBB / CARE A3 (09-Aug-16)
2.	Fund-based - LT-Bank Overdraft	LT	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Positive (13-Dec-18)	1)CARE BBB+; Stable (10-Nov-17) 2)CARE BBB; Stable (28-Apr-17)	1)CARE BBB (09-Aug-16)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
-	-
B. Non financial covenants	
-	-

Note on complexity levels of the rated instrument: *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.*

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