

RATING RATIONALE

05 Nov, 2020

Transcorp International Ltd

Brickwork Ratings revises ratings for the Bank Loan Facilities of Rs. 16 Crs and FD Issue of Rs. 12 Crs of Transcorp International Ltd.

Particulars

Instrument	Amount (In Rs. Crs)		Tenure	Rating *	
	Previous	Present		Previous (Oct 19)	Present
FD Issue	15	12	Long Term	BWR FBBB (Stable)	BWR FBBB- Stable (Downgrade)
Total	15	12	INR Twelve Crores Only		

Facility**	Amount (In Rs Crs)		Tenure	Rating *	
	Previous	Present		Previous (Oct 19)	Present
Fund Based/ Non-Fund Based	16	16	Long Term	BWR BBB (Stable)	BWR BBB- Stable (Downgrade)
Total	16	16	INR Sixteen Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork ratings has revised Long term rating of BWR BBB- with a stable outlook for bank loan facilities and BWR FBBB- with a stable outlook for FD Issue of Transcorp International Limited (TIL). The rating was downgraded on account of continued EBITDA and PAT losses in FY 20 coupled with foreign exchange and outward remittance segments of business being impacted by Covid -19.

The ratings factor in the experienced promoters and management team, established track record of the company in the money changing and transfer segments, strong branch and franchisee network, comfortable gearing ratio with low debt and strong management practices in place. The rating is, however, constrained by low profitability resulting in weak debt protection metrics, counterparty risk and foreign exchange risk.

The rating outlook is supported by reduction in overall loss in Q2FY21 and TIL's efforts to diversify its product mix into portal revenue and acting as a national business correspondent of State Bank of India thereby mitigating Covid-19 led slowdown to some extent.

KEY RATING DRIVERS

Credit Strengths:

- **Experienced and qualified management:** The company is run by a professional management team with all the directors having significant experience in the financial services sector. The Managing Director of the company has expertise in money changing and remittance business. The directors have also hired qualified professionals to manage different aspects of their operations. The board also includes an adequate number of independent directors to manage corporate governance.
- **Strong risk management practices:** Since, the company deals in foreign exchange, hedging of the currency fluctuation risk is crucial. The company has outsourced the risk management activity to specialists and has a detailed policy on the forex risk management. Also, in order to mitigate the credit risk (counterparty risk in case of corporate clients), the company had defined a credit policy to set the credit limits and ensure timely recovery.
- **Moderate capital structure:** On a consolidated basis, TIL reported a net worth of Rs. 49.22 Crs as on March 31, 2020 with a total debt of Rs. 53.88 Crs and has a comfortable overall gearing of 1.13x.
- **Strong branch and dealer network** - The company was initially incorporated as a principal agent of Western Union for full fledged money changer for a period of more than 15 years. Post selling their MTSS (money transfer service scheme) business, the company reduced its own branches to 19 and has shut down 4 branches in FY20. The company is one of the major national business correspondents of State Bank of India and has more than 700 Customer Service Points (CSPs). The company also started a B2B portal named "Transcash" under which it has more than 3000 sub-agents through which it provides various services such as domestic money transfer, insurance, Indo-Nepal money transfer etc. These two new product segments have margin of 22% approx in H1FY21 as compared to EBITDA margin of foreign exchange and outward remittance business.

Credit Risks:

- **Continued losses:** The company has reported loss on EBITDA as well as PAT in the last two years, however, the EBITDA losses have reduced in FY20 as reported at Rs. (3.22) Crs against Rs. (8.80) Crs reported in FY19 respectively on account of new products added by the company in FY20. After selling off its MTSS Business during FY18, the company is focused on enhancing its foreign exchange and outward remittance business. This business is a high volume and low margin business. During FY20 the company witnessed a growth of 60.80% y-o-y in its foreign exchange business. The company

started a new line of business of payment systems in October 2019 and incurred high startup costs leading to losses. The company is in the process of optimizing its costs, reducing dependence on manpower and investing in technology for improving the profitability. TIL has reported an improved EBITDA of Rs. 0.09 Crs in Q2FY21 as against losses in previous quarters reflecting some of these initiatives.

- **Exposure to industry risks** - The money changing business in the country is highly competitive with a wide range of players operating in the segment. The business is also directly linked with the economic growth since, the travel and tourism generally grow with a positive growth in the economy. The industry also involves significant credit risk (to corporate customers) and market risk as the companies have to maintain inventory of foreign currencies and instruments. The company has also ventured into the digital space by launching prepaid instruments which have considerable growth opportunity, however, with many established players already in the segment, it will be difficult for TIL to make a place for itself.
- **Forex risks** - The company has risk to forex exposure as the company has to maintain inventory of foreign currencies and instruments. The risk is mitigated to some extent as TIL has hired specialists to manage foreign currency fluctuations as per the board approved policy. The company has not reported any major losses on account of exchange rate changes in the past three years.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as debited in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: The rating may be upgraded upon sustained improvement in overall profitability leading to an interest service coverage ratio of above 2x.

Negative: The ratings may be downgraded further if there is sustained deterioration in revenues and continued EBITDA losses coupled with stretched liquidity position.

LIQUIDITY POSITION - (Stretched)

TIL has a cash credit facility of Rs. 15.50 crs and its average utilisation of the fund-based limits remained at 95% over the 6 months ended Aug 2020. Company has negative cash accruals of Rs. (6.99) Cr in FY20 (Provisional) against Rs.(8.44) Crs in FY 19 and current portion of long term debt of Rs. 3.74 Crs. The deficit was met via loans and advances recovered from group companies and other available mutual fund investments/cash equivalents. The company has not availed moratorium from any bank. The company has generated cash from operations of Rs. (3.95) Crs in FY20 which has improved from Rs. (11.39) Crs in FY 19. The company has investments in mutual funds for Rs. 4.46 Crs and government bonds of Rs. 0.53 Crs which provide some liquidity cushion. Also, the company had given some loans and advances to group companies with an outstanding balance of Rs. 9.49 Crs as on October 2020 which are recoverable going forward..



COMPANY PROFILE

Transcorp International Ltd (Transcorp) was incorporated on December 20, 1994 at Jaipur (Rajasthan) and is listed at Bombay stock Exchange. The company started as an FFMC and subsequently received an AD-II license from RBI. TIL now undertakes money transfer activities as a sub-agent of EMSPL. TIL presently operates in money changing, outward remittances and prepaid instruments by way of prepaid cards and wallet. The company is also a BC for SBI and a corporate agent for Bajaj Allianz General Insurance. TIL has grown exponentially and offers multi-faceted services including Prepaid cards and wallets in association with RUPAY and Yes Bank, travelers cheque in association with AMEX, Forex travel cards in association with Axis bank, ICICI Bank etc., domestic money transfer via Transcash. TIL is also a National Business Correspondent of SBI which essentially means that it can act as an extension to the SBI official branch providing a slew of services on behalf of the bank like collection of various deposits as well as processing and disbursement of loans.

KEY FINANCIAL INDICATORS (in INR Cr)

Key Parameters	Units	FY19	FY20
Result Type		Audited	Audited
Total Operating Income	Rs. in Crs	1475.50	2367.65
OPBDIT	Rs. in Crs	-8.80	-3.22
PAT	Rs. in Crs	-9.86	-9.87
Tangible Net Worth	Rs. in Crs	59.31	47.83
TOL/TNW	Times	0.94	1.36
Current Ratio	Times	1.08	0.82

Company has achieved a TOI & PAT of Rs. 213.13 Crs and Rs. (1.91) Crs respectively in H1FY21.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY : NA

RATING HISTORY FOR LAST 3 YEARS (INCLUDING WITHDRAWN/SUSPENDED)

Nature of Instrument	Facilities Availed	Current Rating (Sep 2020)			(Rs. Crores)								
		Tenure	Amount (In Crs)	Rating	2019*			2018			2017		
Bank Loan Facility	Fund Based/ Non Fund Based	Long Term	16.00	BWR BBB- (Stable) (Downgrade)	16-Oct-2019			15-Oct-2018			04-Oct-2017		
					FB/ NFB	16	BWR BBB (Stable)	FB/ NFB	19	BWR BBB (Stable)	FB/ NFB	44	BWR BBB (Stable)
Total			16.00	INR Sixteen Crores Only									
Fixed Deposit Issue	FD	Long Term	12.00	BWR FBBB- (Stable) (Downgrade)	16-Oct-2019			15-Oct-2018			04-Oct-2017		
					FD	15	BWR FBBB (Stable)	FD	15	BWR FBBB (Stable)	FD	15	BWR FBBB (Stable)
Total			12.00	INR Twelve Crores Only									

*Rating moved to Rating Not reviewed category on 04-Oct-2018

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Service Sector](#)
- [Short Term Debt](#)

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Transcorp International Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	HDFC Bank	Cash Credit	15.50		15.50
2	HDFC Bank	Bank Guarantee	0.50		0.50
TOTAL					16.00

INR Sixteen Crores Only



Sl. No.	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Fixed Deposit	12.00		12.00
TOTAL				12.00

INR Twelve Crores Only

Additional information is available at www.brickworkratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Brickwork Ratings has been compensated for the provision of the ratings.

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