



Press Release

Raxa Security Services Limited [RSSL]

October 30, 2020

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1	<u>Long Term Fund based facilities</u> Term Loan	202.50	IVR BBB- (CE)/ Stable Outlook [IVR Triple B Minus (Credit Enhancement) with Stable Outlook]	Assigned
2	<u>Long Term Fund based facilities</u> Cash Credit	5.00	IVR BBB- (CE)/ Stable Outlook [IVR Triple B Minus (Credit Enhancement) with Stable Outlook]	Assigned
3	<u>Short Term Non-Fund based facilities</u> Letter of Credit	5.00	IVR A3 (CE) [IVR A Three (Credit Enhancement)]	Assigned
	Total	212.50		

* CE rating fully backed by an unconditional and irrevocable Corporate Guarantee of GMR Infrastructure Limited.

Details of facilities are in Annexure 1

Rating Rationale

The rating assigned to the bank facilities of Raxa Security Services Limited (RSSL) derives comfort from an unconditional & irrevocable Corporate Guarantee given by GMR Infrastructure Limited (GIL) [Parent of Holding Company] to the bank facilities of the company (RSSL).

This corporate guarantee results in credit enhancement in the rating of the said bank facilities to IVR BBB- (CE)/ Stable Outlook [IVR Triple B Minus (Credit Enhancement) with Stable Outlook] against the unsupported rating of IVR BB+; Stable Outlook (IVR Double B Plus with Stable Outlook).



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Further, the rating derives strength from support from GMR group, experienced management, established position in the security industry with diverse client-base, wide array of services and considerable increase in total operating income & improved operating profitability. The rating is however constrained by weak gearing ratio & weak debt coverage indicator albeit with improvement in FY20, highly competitive industry and stressed financial risk profile of the group holding company.

Key Rating Sensitivities:

➤ **Upward Rating Factor:**

Substantial & sustained improvement in the revenue & EBITDA margin while improving the debt protection metrics

➤ **Downward Rating Factor:**

Any further decline in revenue and/or EBITDA margin leading to decline in debt protection metrics

Detailed Description of Key Rating Drivers

Key Rating Strengths

Support from GMR group

GMR Infrastructure Limited (GIL) is the Parent of Holding Company of Raxa Security Services Limited (RSSL). By virtue of being part of GMR group (having a diverse business profile), the company has the advantage of operational synergies. Also, an unconditional and irrevocable corporate guarantee given by GIL for the bank facilities of the company indicates support from the GMR group.

Experienced Directors

The day to day operation of the company is managed by professionals having rich industry experience. Mr. G. Subbarao, CEO of the company is a qualified Chartered Accountant having an overall experience of over four decades. He is associated with GMR Group for over 26 years. Mr. M R Reddy, a Post graduate in Physics, joined Indian Police Service (IPS) in 1967 and was allotted to Maharashtra cadre as Superintendent of Police / Deputy



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Commissioner of Police, post which he went on deputation to Government of India and served in the Intelligence Bureau (IB), handling Intelligence, Industrial / VIP security and Counter Terrorism. Mr. H J Dora, Former Director General of Police of Andhra Pradesh, also worked as Director General, CISF - New Delhi and as Vigilance Commissioner, Central Vigilance Commission. S I S Ahmed, an Indian Police Service officer of 1970 batch from West Bengal Cadre, also served in the Border Security Force (BSF) as Additional Director General, overseeing the Indo Bangladesh Border Management.

Established position in the security industry with diverse client-base

RSSL was founded in 2005, to meet the security requirements of the Group companies. It is an ISO 18788:2015 certified company. Since 2011, Raxa started providing security services to external clients also & now it has got a diverse portfolio of clients that includes renowned companies in Manufacturing, Pharmaceutical, IT, Hospitality & Educational sectors as well as Government establishments. It has presence in around 18 states with 5,500 plus personnel.

Wide array of services

Raxa provides integrated security solutions with a good combination of technology & manpower like premium manned guarding, consultancy and advisory, integrated security systems, facility management, events security, aviation related services and security training. In the year 2007, it established Raxa Academy, which is spread over in a 100-Acre campus, with state-of-the-art Training Infrastructure. The Academy is an ISO 29993:2017 certified academy.

Considerable increase in total operating income & improved operating profitability

Over a period of last 4 years, the Company's total income from operations has been increasing from INR 137.53 Crore in FY17 to INR 163.15 Crore in FY18, recording a growth of ~19%, thereafter from INR 162.20 Crore in FY19 to INR 181.21 Crore in FY20, reflecting a growth of ~12%. The rise in FY20 was due to an increase in manpower security services from INR 160.62 Crore in FY19 to INR 178.71 Crore in FY20 (growth of ~11%) & systems services from INR 1.57 Crore in FY19 to INR 2.50 Crore in FY20. The EBITDA margin has also improved from 6.57% in FY19 to 9.79% in FY20.



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Key Rating Weaknesses

Weak gearing ratio & weak debt coverage indicator albeit with improvement in FY20

The overall gearing ratio of the Company is weak, although improved from 4.07x as at FY19 to 3.90x as at FY20 due to increase in Net Worth. The Total outside liabilities to Tangible Net Worth also improved from 4.87x as at FY19 to 4.81x as at FY20.

The interest coverage ratio stands low but improved from 0.36x in FY19 & 0.60x in FY20 due to increase in profits.

Highly competitive industry

The security service industry is highly fragmented with low differentiation leading to the company facing stiff competition both from the organized and unorganized sector players. This has a consequential impact on pricing and in turn, to lower profitability. However, RSSL has been able to establish a strong presence with its long track record and a wider array of services including facility management and security training.

Stressed financial risk profile of the group holding company

GIL (on a consolidated basis) continues to have a stressed financial risk profile reflected by low profitability and weak debt coverage matrices. The company has been reporting losses in the last three financial years, primarily driven by high interest cost (on account of high debt burden) and share of loss on impairment of investments in associates resulting in low debt service coverage indicators. However, after the consummation of ADP stake purchase in GMR Airport, the liquidity position of the Company is expected to improve. GMR group has received INR 98.2 bn in 2 tranches and can also receive additional INR 10.60 bn by FY24 as part of earn outs which is expected to improve the liquidity of the group.

Analytical Approach & Applicable Criteria:

- Credit Enhancement (CE Rating): Consolidated financials of GMR Infrastructure Limited (GIL). GMR Infrastructure Limited (GIL), being the Parent of Holding Company of Raxa Security Services Limited (RSSL) and GIL has given corporate guarantee for the debt of RSSL.
- Unsupported Rating: Standalone financials of Raxa Security Services Limited (RSSL)
- Rating methodology for service sector companies
- Financial ratios and Interpretation (Non-Financial Sector)



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Liquidity: Adequate

The Company has been earning a moderate level of GCA for the last few years and the same is expected to increase further with an increase in scale of operations. The company maintains moderate cash and bank balance to meet its liquidity requirements. The utilization of working capital limits remained low at 33% during the 12 months ended July 31, 2020. The Current & Quick ratios are comfortable at 1.92x each as at FY20. However, it derives comfort from an unconditional & irrevocable corporate guarantee given by GMR Infrastructure Limited.

About the company

Raxa Security Services is a GMR Group company, founded in 2005, to meet the security requirements of the Group companies. Since 2011, Raxa started providing security services to external clients also & now it has got a diverse portfolio of clients that includes renowned companies in Manufacturing, Pharmaceutical, IT, Hospitality & Educational sectors as well as Government establishments. It has presence in around 18 states with 5,500 plus personnel. Raxa provides Integrated Security Solutions with a good combination of Technology & Manpower. It is an ISO 18788:2015 certified company. The scope of projects undertaken includes Access Control, CCTV Surveillance, Perimeter Security, Anti Sabotage & Anti-Terror measures and Command Control Centres. Raxa provides very high level of security training not only to its security personnel but outside clients also. Raxa provides niche security services such as Canine, QRT/SOT, Event Management, Executive Protection, Risk Assessment & Management, Travel Advisory and Fraud Prevention & Detection.

In the year 2007, it established Raxa Academy, which is spread over in a 100-Acre campus, with state-of-the-art Training Infrastructure. It is located on Bengaluru – Hyderabad National Highway (NH-44), at a distance of about 60 km. from Bengaluru Airport. The Academy is an ISO 29993:2017 certified academy. The Academy has faculty/trainers drawn from various forces like Army, CISF and Paramilitary and is headed by a highly competent ex-armed forces officer having rich experience in training. Academy has a capacity to train about 500 trainees at a time.



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Financials

For the year ended / As on	INR in Crore	
	31-Mar-19 (Audited)	31-Mar-20 (Audited)
Total Operating Income	162.20	181.21
EBITDA	10.66	17.75
PAT	7.26	6.54
Total Debt	225.17	231.09
Tangible Net Worth	55.31	59.21
EBITDA Margin (%)	6.57	9.79
PAT Margin (%)	3.76	3.20
Overall Gearing ratio (x)	4.07	3.90

* Classification as per Infomerics' standards

Details of Non Co-operation with any other CRA:

CARE Ratings has moved the rating of Raxa Security Services Limited into the Issuer Non Co-operating category as per the Press Release dated April 06, 2020.

Any other information: N.A.

Rating History for last three years:

Name of Instrument/ Facility	Current Rating (Year: 2020-21)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating	Rating assigned in 2019-20	Rating assigned in 2018-19	Rating assigned in 2017-18
Long Term Fund based facility	Term Loan	202.50	IVR BBB-(CE)/ Stable Outlook	--	--	--
Long Term Fund based facility	Cash Credit	5.00	IVR BBB-(CE)/ Stable Outlook	--	--	--
Short Term Non-Fund based facility	Letter of Credit	5.00	IVR A3 (CE)	--	--	--
	Total	212.50				

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Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Sr. No.	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
1	<u>Long Term Fund based facilities</u> Term Loan	--	--	November, 2025	202.50	IVR BBB-(CE)/ Stable Outlook
2	<u>Long Term Fund based facilities</u> Cash Credit	--	--	--	5.00	IVR BBB-(CE)/ Stable Outlook
3	<u>Short Term Non-Fund based facilities</u> Letter of Credit	--	--	--	5.00	IVR A3 (CE)
	Total				212.50	

**CE rating fully backed by an unconditional and irrevocable Corporate Guarantee of GMR Infrastructure Limited.*