

Vikran Engineering & Exim Private Limited

March 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	84.00 (Enhanced from 79.00)	CARE BBB-; Stable	Revised from CARE BBB; Negative
Long Term / Short Term Bank Facilities	215.75 (Enhanced from 200.50)	CARE BBB-; Stable / CARE A3	Revised from CARE BBB; Negative / CARE A3
Short Term Bank Facilities	22.50 (Enhanced from 20.00)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities factors the continuous trend in elevated levels of gross current asset days at 361 for FY22 from 223 days in FY18 due to higher levels of collection days and delays in realization of revenue from executed works resulting in continuous stretch on the working capital position, with financing through working capital limits and deferment of creditors payment. The working capital profile continued to remain weak during 10MFY23. CARE Ratings is of the view that the elevated levels of gross current asset days and stretched working capital limits is expected to continue since majority of the revenue will be booked in Q4. Given the unbridged working capital gap the enhancement in limits becomes critical from credit perspective.

The rating derives strength from experience of its promoters in Power Transmission and Distribution (T&D) infrastructure industry, growth in order book position and improving geographical/sectoral diversification. This apart, the order book is diversified across 8 states of India and reduction in sectoral concentration by diversifying into water supply and railways sector, which are expected to yield better operating profit margins against the existing low profit margin transmission & distribution sector. The ratings also factor in growth in scale of operations with TOI increased from Rs 366 crore in FY21 to Rs 475 crore in FY22. Further, the company has achieved Rs 220 crore for 10MFY23.

The rating strengths are offset by exposure to weak counterparties and large portion of order book at nascent stage. In contracts about 62% of the order book, where the progress is less than 2% coupled with company's foray into new sector especially in water supply projects from Uttar Pradesh, wherein the design approvals from multiple authorities is critical from execution perspective. Furthermore, the 34% of the ongoing orderbook have exceeded the scheduled completion date having major exposure to Andhra Pradesh Central Power Distribution Corporation Limited (APPDCL), though 71% of the orders are covered with escalation in the contracts. This apart, the top 4 orders contribute 74% of the order book, which exposes the company to inherent challenges in scaling up of operations.

The ratings continue to remain tempered by moderation in operating profit margins along with debt coverage ratios and stretched liquidity.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in scale of operations along with operating margins exceeding 10%.
- Reduction in receivables below 120 days.
- Improvement in liquidity along with efficient management of working capital.

Negative factors

- Deterioration in collection days from existing level leading to strain in liquidity.
- Moderation in TOL/TNW exceeding 3.5x.

Analytical approach: Standalone

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Stable

The company's business risk profile is expected to remain steady supported by healthy revenue visibility backed by continuous flow of orders and relative geographic and sectoral diversity in the order book.

Key strengths

Improved orderbook with majority of the orders in nascent stage of operations:

The rating derives strength from improvement in order book from Rs 1432 crore as on September 30, 2021 to Rs 2497 crore as on December 31, 2022, which translates to 5.33x times the total operating income of FY22 (P.Y: 4.24x), however moderated by 62% of outstanding the order book are in the nascent stages of operations, where the progress is less than 2% coupled with company's foray into new sector especially in water supply projects from Uttar Pradesh, wherein the design approvals from multiple authorities is critical from execution perspective. Furthermore, the 34% of the ongoing orderbook have exceeded the scheduled completion date having major exposure to Andhra Pradesh Central Power Distribution Corporation Limited (APPDCL), though 71% of the orders are covered with escalation in the contracts. This apart, the top 4 orders contribute 74% of the order book, which exposes the company to inherent challenges in scaling up of operations.

Geographical and Sector Diversification:

Over the years, VEEPL has successfully expanded its business and diversified its operations to several states. The company has work orders more than 8 states spread across India with Uttar Pradesh contributing 41% followed by Andhra Pradesh at 23%, Madhya Pradesh at 12% and balance with other states. This apart, the Company has diversified into water works which is expected to provide better operating profit margins are having o/s orders of Rs 1236 crore (49%) (P.Y: 0%) in and balance 51% (P.Y: 100%) are from Transmission & Electrical works as on December 31, 2022.

Rich experience of promoters in Transmission & Distribution Industry (Power Sector)

VEEPL is promoted by Mr Rakesh Markhedkar, who has over three decades of experience in the power transmission and distribution segment and has handled various assignments in leadership positions across various reputed companies. He has also been bestowed with many prestigious awards in the power sector. He is assisted by his family members and a team of qualified professionals in handling the day-to-day operations of the company.

Stable long-term demand outlook for power T&D and water industry

Looking at the government's continued focus towards connecting every rural household for ensuring un-interrupted power and water supply through various schemes such as Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) and Pradhan Mantri Sahaj Bijli Har Ghar Yojana (Saubhagya), Jal Jeevan Mission, the transmission & distribution industry as well as the water industry is expecting many new projects, necessitating erection of thousands of kilometres of new transmission and distribution lines and construction of hundreds of new substations. The EPC players in this segment are envisaged to benefit from such rise in demand for new infrastructure.

Key weaknesses

Moderation in financial performance albeit improvement in scale of operations:

The total operating income has grown from Rs 366 crore in FY21 to Rs 475 crore in FY23. Further, the company has achieved Rs 220 crore for 10MFY23 and the company generally books majority of the billing in Q4 based on the visibility of funds from the client, and this has been the trend historically. The operating profit margins (PBILDT) have been fluctuating and were in the range bound 7%-11% since FY18 and declined to 7.07% during FY22 from 10.82% in FY21 and then improved slightly to 8.1% for 10MFY23. The margins are expected to improve going forward with addition of new orders from water works which is expected to generate higher operating margins compared to existing orders from power segment, which is a key credit monitorable.

Deterioration in capital structure and moderation in coverage ratios:

The capital structure marked by overall gearing deteriorated from 0.81x as on March 31, 2018 to 1.17x as on March 31, 2022 and TOL/TNW from 2.29x to 3.60x for the same period, while the operating revenue improved from Rs 188 crore for FY18 to Rs 475 crore in FY22, primarily due to delay in receivables, which were funded by higher utilization of CC limits, borrowing term loans to fund working capital requirements and deferments of creditor payments. Further, the debt coverage ratios such as Interest coverage and Total Debt/PBILDT have deteriorated from 2.16x in FY18 to 3.78x in FY22.

Stretched working capital:

Though there has been improvement in operating income, stretched operating cycle is reflected from deterioration in collection days from 117 days in FY18 to 238 days in FY22, which has been reflected in average fund based working capital utilization including adhoc limits remained high above 92% for the trailing 12 months ending January 2023 and by elongating the creditor payments from 94 day in FY18 to 144 days in FY22. Further, the NFB utilization stands high at 90% as of January 2023. Hence, going forward enhancements in working capital limits is critical towards increase in scale of operations.

Furthermore, the Gross Current Asset days have also significantly elevated to 360 days in FY22 from 233 days in FY20, primarily due to increase in receivables from Rs 168 crore as on March 31,2020 to Rs 373 crore as on March 31,2022 due to increase in scale of operations. Though, there has been improvement in receivable to Rs 193 crore as on January 31,2023, most of them are utilized towards meeting creditor payments, which stands at Rs 81 crore as on January 31,2023, however, the working capital limits continues to be stretched with average utilization stands at 93% for the month January 2023.

Liquidity: Stretched

Stretched liquidity is marked by presence of higher utilization of fund based & non-fund based limits exceeding 90% for the trailing 12 months ending January 2023 due to blockage of elevated levels of receivables. Considering, weakening capital structure having TOL/TNW stands at 3.60x as on March 31,2022, there is little headroom for financial flexibility. Further, the company has unencumbered free cash and bank balance of Rs 14.77 crore as on January 31,2023.

Applicable criteria

[Criteria on assigning Rating Outlook and Credit Watch](#)

[Financial Ratios – Non-financial Sector](#)

[Criteria on rating of Short-Term Instruments](#)

[Criteria on rating methodology- Construction Sector](#)

[Liquidity Analysis of Non-Financial Sector entities](#)

About the company and industry

VEEPL, erstwhile Ratnagiri Financial Advisory Pvt. Ltd., was incorporated in 2008. Mr. Rakesh Markhedkar and his family acquired the company in November 2014 and rechristened it as VEEPL. The company is presently engaged in execution of power transmission lines, substations and distribution projects up to 400 kV voltage level on EPC basis. Recently, the company has diversified into water infra segment focusing on distribution system, village pipe network, intake well, water treatment plant as well as into railway segment offering civil works, track laying, overhead electrification and signalling and telecommunication.

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	10MFY23 (UA)
Total operating income	336.43	475.55	220.70
PBILDT	36.42	33.64	18.20
PAT	16.55	10.33	1.05
Overall gearing (times)	1.15	1.17	NA
Interest coverage (times)	2.75	1.99	NM

A: Audited, UA: Unaudited, NM: Not meaningful, NA: Not Available

Note: Financials Classified as per CARE's Internal Standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd: Not Applicable

Disclosure of Interest of Managing Director & CEO: Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	84.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	215.75	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	22.50	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	215.75	CARE BBB-; Stable / CARE A3	-	1)CARE BBB; Negative / CARE A3 (03-Jan-22)	1)CARE BBB; Stable / CARE A3 (30-Dec-20)	1)CARE BBB; Positive / CARE A3 (06-Jan-20)
2	Fund-based - LT-Cash Credit	LT	84.00	CARE BBB-; Stable	-	1)CARE BBB; Negative (03-Jan-22)	1)CARE BBB; Stable (30-Dec-20)	1)CARE BBB; Positive (06-Jan-20)
3	Non-fund-based - ST-Letter of credit	ST	22.50	CARE A3	-	1)CARE A3 (03-Jan-22)	1)CARE A3 (30-Dec-20)	1)CARE A3 (06-Jan-20)
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (06-Jan-20)

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	Not Applicable
B. Non-financial covenants	
	- For BGs issued on behalf of Joint Ventures, VEEPL alone will be liable to the bank. - The company shall not declare dividend without obtaining NOC from the consortium of lenders.

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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