

Velankani Information Systems Ltd

April 8, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	434.98	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	434.98 (Rs. Four Hundred Thirty-Four Crore and Ninety-Eight Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the facilities of Velankani Information Systems Limited (VISL) continues to factor in weak performance of hotel asset which has been impacted on account of severe drop in foreign and domestic travel due to Covid19 outbreak. CARE takes note of improving Hotel performance with Gross Operating Profit turning positive from Nov'20 and VISL entering into contracts with corporates which is likely to improve its performance going forward. However, occupancy rate is still well below pre-Covid levels making it dependent on surplus cashflows from Restobar and from commercial property. Receipt of additional sanction of around Rs. 9 cr from lenders is also likely to aid liquidity in near term. Hotel's ability to reach to pre-Covid occupancy and profitability levels within envisaged timelines remains to be seen and will be key rating monitorable.

CARE also continues to factor in high exposure in the form of loans and advances/ investments in its wholly owned loss making subsidiary, Velankani Electronics P Ltd (VEPL), cyclical nature of the hotel industry, inherent renewal risk of lease agreements. On the positive front, the rating continues to positively factor maintenance of DSRA, favorable location of the property which has resulted in almost full occupancy levels at IT Park at competitive rentals and past consistent operational performance of hotel division.

CARE takes note of company's plan to construct additional 1.5msf of commercial space for which financial closure is pending. The project would be exposed to timely construction and leasing risk though company has signed LOI for approx. 20% of area.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Recovery of majority of the advances from VEPL
- Leasing of at least 60% of total leasable area (existing plus upcoming) at rentals not less than Rs. 70/sft/month within 2 years of raising of NCDs

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Further increase in exposure to VEPL than what is projected to be extended out of proposed NCD issue
- Delay in recovery of hotel's performance leading to deterioration in liquidity profile.

Detailed description of the key rating drivers

Key Rating Weaknesses

Subdued hotel division performance though gradually recovering: Hotel occupancy and revenue of company has been significantly impacted due to Covid-19. Even though the hotel occupancy has improved to 20% (pre Covid-56%-60%) with avg revenue earned of Rs. 1 crore/month till 11MFY21, it is still below the pre-Covid levels of Rs. 6 crore/ month. For 11MFY21, total revenue of Rs. 11.2 cr (FY20: Rs. 65 cr) has been registered with Gross operating loss of Rs. 0.46 cr (FY20 Gross operating profit of Rs. 28.51 cr). While the recent additional sanction received from the lenders has helped the company in managing hotel cashflow for short term, continuing low occupancy levels at hotel may affect the overall VISL's credit profile.

High exposure to group company: VISL has invested Rs. 394.34 crore as on Mar'20 as against Rs. 402.1 crore Mar'19 which was almost 2.37x its networth as on that date. VEPL has an automated facility to produce electronic devices and commenced operations from Mar 11, 2016. Later in Jul'19, company has also ventured into MSO (Multiple System Operator) business. Due to various reasons including change in regulatory environment led VEPL incurring continuous losses and therefore additional support from VISL. VEPL has incurred net loss of Rs. 32.3 cr in FY20 as against Rs.66.1 cr crore in FY19. VEPL has recently received new orders from two clients and VISL is expecting that VEPL will become financially independent by next financial year but ability of VEPL to turnaround its performance on a sustained basis remains to be seen.

Inherent renewal risk of lease agreements: The lease rentals are generally signed for 5-10 years which is shorter than the loan tenor of 12-13 years which poses renewal risk of lease agreements. Further, any lessee can vacate the premises though sufficient notice period of 6-12 months is to be served. However, the rentals are in line with other tech parks of Electronic City which reduces the possibility of contract termination by clients.

Key Rating Strengths

Presence of escrow account: The Company has opened separate escrow accounts viz. 'Hotel Escrow Account' and 'LRD Escrow Account' for routing of cashflows from hotel and techpark respectively. Company has also maintained DSRA of 2 months of interest and principal. Further, the company has executed Power of attorney favoring the lenders authorizing the bank to recover the rentals directly from lessees and re-lease the property in case of payment default.

Good revenue visibility from Tech-Park due to low vacancy levels: Tech-Park is fully occupied with reputed companies as lessees and with lease rental operations providing satisfactory revenue visibility. Almost all the lessee companies are renowned MNCs engaged in developing/ providing IT, ITes. The leases are backed by registered lease deeds with lease period ranging from 3-5 years with mandatory/ optional renewal for further 3-5 years after the expiry of current lease with additional renewal option. All the lease agreements include a notice period of 6-12 months, which ensures that the company has adequate time to rope in new tenants in case of withdrawals of the existing clients. The company has received rentals from all tenants amid Covid-19.

Liquidity: Stretched

Company has been receiving rents from tenants of techpark which provides steady state source of revenue and is being adjusted against LRD repayments. On the other hand, company's hotel division revenues have been impacted severely due to lock down and is expected to remain muted in near term which will significantly impact its cashflow. VISL has maintained DSRA of Rs. 7.66 crore as on March 12, 2021 which would be sufficient enough to make debt repayments in near term but longer than envisaged time in turnaround in hotel's operations is critical. Promoter's effort to restore liquidity with fresh equity as and when required in a timely manner is essential. The company's liquidity will also be determined by its ability to tie up the upcoming space as envisaged rentals and timelines. Further support than projected to the group company is likely to deteriorate VISL's liquidity profile and would be a key rating monitorable.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Rating](#)

[CARE's default recognition policy](#)

[Financial ratios - Non Financial Sector](#)

[Rating methodology for debt backed by lease rentals](#)

[Rating Methodology - Hotel Industry](#)

About the Company

Velankani Information Systems Limited (VISL), erstwhile Velankani Information Systems Pvt. Ltd., is promoted by Mr. Kiron D Shah and Velankani Mauritius Limited (VML) in May 1999. VML is an investment vehicle having 99.70% of holding in VISL (0.30% is held by Mr Kiron Shah and others). VISL has developed two technology parks, one each in Bangalore and Chennai. The tech park at Bangalore (BTP) with a leasable area of 8.16 lsf is operational since December 2006 and current leasable area is 7.87 lsf after demolition of a building. The tech park at Chennai with a leasable area of 20,000 sft is operational since December 2007 but it has been unoccupied since Jul'11. The company also owns a five star hotel named "The Oterra" consisting of 282 rooms (operational: 267 rooms) located in Electronics City, Bengaluru.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	134.81	149.91
PBILDT	87.81	91.29
PAT	12.89	23.28
Overall gearing (times)	3.13	2.66
Interest coverage (times)	1.74	1.62

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

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

Complexity level of various instruments rated for this company: Annexure 4

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
Fund-based - LT-Term Loan	-	-	-	Jul'32	151.50	CARE BB+; Stable
Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	-	-	-	Jul'31	283.48	CARE BB+; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (12-Jan-18) 2)CARE AA (SO); Stable (05-Oct-17)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (12-Jan-18) 2)CARE A-(SO); Stable (05-Oct-17)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (12-Jan-18) 2)CARE BBB; Stable (05-Oct-17)
4.	Fund-based - LT-Term Loan	LT	151.50	CARE BB+; Stable	1)CARE BB+; Stable (24-Dec-20) 2)CARE BBB-(CWN) (22-May-20)	1)CARE BBB-; Stable (16-Mar-20)	1)CARE BBB (SO); Stable (19-Mar-19)	1)CARE BBB (SO); Stable (17-Jan-18)
5.	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	283.48	CARE BB+; Stable	1)CARE BB+; Stable (24-Dec-20) 2)CARE BBB-(CWN) (22-May-20)	1)CARE BBB-; Stable (16-Mar-20)	1)CARE BBB (SO); Stable (19-Mar-19)	1)CARE BBB (SO); Stable (17-Jan-18)
6.	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	-	-	-	1)Withdrawn (16-Mar-20)	1)Provisional CARE BBB (SO); Stable (19-Mar-19)	-
7.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (24-Dec-20) 2)Provisional CARE BB+ (CWN)	1)Provisional CARE BB+; Stable (16-Mar-20)	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
					(22-May-20)			

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
LRD/TL	<ul style="list-style-type: none"> TD to TNW $\leq 3.25x$ in FY19 and $\leq 3x$ from FY20 onwards DSCR $\geq 1.25x$
B. Non-financial covenants	
LRD/TL	The borrower shall not: <ul style="list-style-type: none"> Sell, transfer or otherwise dispose of the property or any part of thereof, without prior written approval Enter into any amalgamation, demerger, merger or reconstruction Amend or modify any of its constitutional documents which have material adverse effect.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	Simple
3.	Fund-based - LT-Term Loan	Simple

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

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