

BVG India Limited

October 08, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB+; Positive (Triple B Plus; Outlook: Positive) and Withdrawn
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE BBB+; Positive / CARE A3+ (Triple B Plus ; Outlook: Positive / A Three Plus) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A3+ (A Three Plus) and Withdrawn
Total	-		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB+; Positive/CARE A3+' [Triple B; Outlook: Positive/ A Three Plus] assigned to the bank facilities of BVG India Limited (BVG) with immediate effect. The above action has been taken at the request of BVG and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

The ratings factors in the qualified and experienced promoters with established track record, diversified revenue streams, nationwide geographic presence and strong execution capabilities leading to large scale of operations with strong order book position. The company also benefits from long term association with large number of diversified and reputed clientele with high client retention rate. However, these strengths are offset by high receivables leading to elongated working capital cycle, moderate but volatile operating margin resulting in moderation in debt coverage metrics. Furthermore, competition from organized and unorganized players and challenges in recruiting and retaining of labour are prevalent in the facility services industry. The rating also takes note of delays in servicing statutory dues and; income tax search and seizure operations; as well as request by Doha Bank to rescind the bank loan facilities sanctioned by the bank to BVG. In principal, it has been agreed to repay the exposure of Doha Bank aggregating to Rs.30 crs in three tranches in Q1FY22.

Detailed description of the key rating drivers

Key Rating Strengths

Qualified and experienced promoters with established track record in the industry: BVG's promoters, Mr. H. R. Gaikwad (Chairman and Managing Director, B.E. Electronics) and Mr. Umesh Mane (Vice Chairman and Joint Managing Director, M.Com) bring with them rich experience in the facility management industry. The promoters are actively involved in the operations of the company and are supported by qualified and experienced 2nd tier management. The company's business has been divided into various region- wise verticals and each vertical- head has been assigned responsibilities specific to their respective regions. BVG has received certifications such as ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007 (Occupational Health & Safety Management Systems) and SA 8000 (Social Accountability Standards).

In 2011, Strategic Investments FM (Mauritius) Alpha Ltd and Strategic Investments FM (Mauritius) B Ltd, the affiliates of 3i Group Plc, invested \$42.83 million (Rs.193 crore) in BVG for 26.90% stake, diluting promoters' holdings to that extent. The company is now planning an Initial Public Offer (IPO) which is expected to provide a partial exit to the 3i group and promoters along with some portion for general corporate purposes. However, the same shall remain a key rating monitorable.

Diversified revenue streams: As an integrated service provider, the company provides various services across different segments viz. Facility Management Services (FMS, includes services such as mechanized housekeeping, integrated maintenance services, attendant services, waste management, LED installation, etc.), Emergency Management Services (EMS, includes ambulance and police van services) and Facility management projects (FMP, like landscaping and garden development). The company had also diversified into Rural Electrification projects, however due to economic unviability, the management discontinued the division in FY19. Cumulatively, BVG's operations are divided into more than 26 verticals.

Nationwide geographic presence and strong execution capabilities: The Company commenced its operations from its head office in Pune in 2002. Within a short span of time, the company has spread its operations across India, over 850 sites in 70

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

cities across 22 states. BVG has a strong employee base of more than 75,000 and the company continuously undertakes training and skill development activities for its employees to improve the execution capabilities. In the past, it has demonstrated strong execution track record through large and reputed projects.

Long association with large number of diversified and reputed clientele and high client retention rate: BVG has a large client base with ongoing work on more than 850 sites. The customer retention ratio is about 80%, ensuring repeat orders for the company. The key customers have been associated with BVG for a duration ranging from 10 to 15 years. Some of the key clients of the company are Directorate of Health Services – Maharashtra (EMS), Jaipur Municipal Corporation (FMS), Police Telecommunication Headquarter, Madhya Pradesh (EMS), etc. Top 10 customers accounted for 47.06% of net sales in FY20 and the rest of the revenue composition is spread across a significant number of customers.

Large scale of operations supported by strong order book position: With work on over 850 sites pan India, the operations of BVG are large. The company achieved total operating income of Rs.1933.20 crore in FY20, a growth of 5.69% over previous year. With order book of about Rs.2790 crore as on June 30, 2020; BVG is expected to sustain its large scale of operations going forward. COVID-19 also had impacted BVG in Q1FY21 with revenue de-growth of about 17% year on year (Y-o-Y) due to inactivity at sites of private clients and partial operations at government sites. The company is expected to pick up its operations from H2FY21 and post moderate growth going forward.

Key Rating Weaknesses

High receivables leading to elongated working capital cycle: Due to inherent nature of the contracts, BVG's collection cycle is long. Generally in FMS segment, BVG realizes receivables in 60-110 days while in EMS segment about 90 days. However, due to the presence of retention money and unbilled revenue along with certain sticky debtors, the collection period averaged to 208-217 days in FY19-FY20. Further, there is work-in-progress inventory of 33-79 days (majorly from discontinued segment) culminating to working capital cycle of 214-271 days over the last two years through FY20.

Moderate but volatile operating margins: In FY17, the PBILDT (PAT) margin was 21.65% (11.86%) which sharply reduced to 14.67% (6.28%) in FY18 and 10.39% (3.62%) in FY19. The reasons were multifold including discontinuation of rural electrification division which provided healthy margins but collections were stretched, revision in minimum wages by various relevant statutory authorities which could not be passed off to clients and provisioning as well as write off of debtors. The PBILDT (PAT) margin improved to 13.04% (6.09%) in FY20 on stabilization of employee costs and reduced write offs and provisions of debtors among other factors. However, the PBILDT margins continue to remain moderate. In Q1FY21, lower than historical revenue generation led to dip in PBILDT margin to 11.50%. Over the medium term the profitability margin may continue to remain moderate and volatile.

Below average debt coverage metrics: To manage its large working capital requirements, the company relies majorly on working capital debt both fund based and non-fund based. Furthermore, the profitability margins are moderate. Resultantly, the PBILDT interest coverage ratio, though improved from 2.23x in FY19 to 2.77x in FY20, is still below average and significantly lower compared to PBILDT interest coverage of 3.88x in FY17. Similarly, total debt to gross cash accruals is also below average at 5.35x (6.97x) in FY20 (FY19) and weaker compared to 3.10x in FY17. Unless, the working capital debt is reduced significantly through shortening working capital cycle or infusion of equity, debt coverage metrics are expected to remain below average.

Competition from organized as well as unorganized players: The industry is highly fragmented in nature and the entry barrier is low due to low initial capital investment. BVG faces competition from some of the organised domestic facility management service providers, international players entering domestic markets as well as from the smaller players. In the emergency management services, BVG faces competition from local / private service providers as well as healthcare companies providing similar services. Due to tender based nature of business, BVG's revenues are dependent on the company's ability to convert the bids and there exists risk of appointment of a new service provider upon expiry of agreement.

Recruiting and retaining of labour is a key challenge: The industry is characterized by intense competition with low entry barriers, presence of large number of unorganised players and attrition rate. Availability of labour force is a key challenge faced by the facility management providers. The skill requirements for the jobs are not niche and the service providers face a constant risk of losing the workforce to competitors.

Delays in servicing statutory dues: It has been reported in auditor's report for FY19 and FY20 that there are delays in paying undisputed statutory dues like including provident fund (PF), employees' state insurance (ESI), income-tax, goods and service tax, duty of customs, professional tax, cess and any other statutory dues and that the management has stated due to high

labour turnover, it becomes difficult to generate Universal Account Number (UAN), thus leading to delays in PF and ESI. Since the industry is labour intensive such delays are seen across many companies in the industry.

Income tax search and seizure operations: On November 6, 2019, Income tax officials carried out search and seizure operations at several offices of Pune-based BVG group. Searches were conducted at its offices in Pune, Mumbai and Delhi. During these proceedings, the IT department had requisitioned books of accounts and other documents for AY 2013-14 to AY 2019-20. Till date no demand notice/liability has been raised by Income Tax Department. In the view of that quantification of any possible impact on the company's financial profile cannot be made and hence no provisions have been created. The result of the income tax search operations will continue to remain key monitorable.

Regulatory risk: BVG is exposed to regulatory risks inherent to the industry given the various stringent provisions related to labour laws.

Analytical approach: Not applicable

Applicable Criteria

[Policy on Withdrawal of ratings](#)

About the Company

BVG India Limited (BVG), headquartered in Pune, is one of India's largest integrated services company, with services spanning across facility management, emergency services and solar power projects. Originally established as a partnership firm in 1997 by Mr. Hanmantrao Gaikwad and Mr. Umeshrao Mane and with an 8 member cleaning crew, BVG has grown to become an integrated services company with an employee strength of more than 75,000.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1829.04	1933.20
PBILDT	190.04	252.10
PAT*	66.19	117.73
Overall gearing (times)	1.04	0.91
Interest coverage (times)	2.23	2.77

A: Audited

*PAT before discontinuing operations

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	May 2023	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Working Capital Limits	-	-	-	0.00	Withdrawn
Fund-based/Non-fund-based-LT/ST	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Bank Guarantees	-	-	-	0.00	Withdrawn
Fund-based - LT-Proposed fund based limits	-	-	-	0.00	Withdrawn

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.	Fund-based - LT-Term Loan	LT	-	-	1)CARE BBB+; Positive (17-Sep-20)	1)CARE BBB; Negative; ISSUER NOT COOPERATING* (18-Mar-20) 2)CARE A- (Under Credit watch with Negative Implications) (18-Nov-19) 3)CARE A+ (Under Credit watch with Negative Implications) (14-Oct-19) 4)CARE A+; Stable (02-Apr-19)	1)CARE A+; Stable (21-Jun-18) 2)CARE A+; Stable (04-Apr-18)	1)CARE A+; Stable (09-May-17)
2.	Fund-based - LT-Cash Credit	LT	-	-	1)CARE BBB+; Positive (17-Sep-20)	1)CARE BBB; Negative; ISSUER NOT COOPERATING* (18-Mar-20) 2)CARE A- (Under Credit watch with Negative Implications) (18-Nov-19) 3)CARE A+ (Under Credit watch with Negative Implications) (14-Oct-19) 4)CARE A+; Stable (02-Apr-19)	1)CARE A+; Stable (21-Jun-18) 2)CARE A+; Stable (04-Apr-18)	1)CARE A+; Stable (09-May-17)
3.	Non-fund-based - LT-Bank Guarantees	-	-	-	-	1)CARE BBB; Negative; ISSUER NOT COOPERATING* (18-Mar-20) 2)CARE A- (Under Credit watch with Negative Implications) (18-Nov-19) 3)CARE A+ (Under Credit watch with Negative Implications) (14-Oct-19) 4)CARE A+; Stable (02-Apr-19)	1)CARE A+; Stable (21-Jun-18) 2)CARE A+; Stable (04-Apr-18)	1)CARE A+; Stable (09-May-17)

4.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	-	-	1)CARE BBB+; Positive / CARE A3+ (17-Sep-20)	1)CARE BBB; Negative / CARE A3; ISSUER NOT COOPERATING* (18-Mar-20) 2)CARE A- / CARE A2 (Under Credit watch with Negative Implications) (18-Nov-19) 3)CARE A+ / CARE A1 (Under Credit watch with Negative Implications) (14-Oct-19) 4)CARE A+; Stable / CARE A1 (02-Apr-19)	1)CARE A+; Stable / CARE A1 (21-Jun- 18) 2)CARE A+; Stable / CARE A1 (04-Apr- 18)	1)CARE A+; Stable / CARE A1 (09-May- 17)
5.	Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1)CARE BBB; Negative / CARE A3; ISSUER NOT COOPERATING* (18-Mar-20) 2)CARE A- / CARE A2 (Under Credit watch with Negative Implications) (18-Nov-19) 3)CARE A+ / CARE A1 (Under Credit watch with Negative Implications) (14-Oct-19) 4)CARE A+; Stable / CARE A1 (02-Apr-19)	1)CARE A+; Stable / CARE A1 (21-Jun- 18) 2)CARE A+; Stable / CARE A1 (04-Apr- 18)	1)CARE A+; Stable / CARE A1 (09-May- 17)
6.	Fund-based/Non- fund-based-LT/ST	LT/ST	-	-	1)CARE BBB+; Positive / CARE A3+ (17-Sep-20)	1)CARE BBB; Negative / CARE A3; ISSUER NOT COOPERATING* (18-Mar-20) 2)CARE A- / CARE A2 (Under Credit watch with Negative Implications) (18-Nov-19) 3)CARE A+ / CARE A1 (Under Credit watch with Negative Implications) (14-Oct-19) 4)CARE A+; Stable /	1)CARE A+; Stable / CARE A1 (21-Jun- 18) 2)CARE A+; Stable / CARE A1 (04-Apr- 18)	1)CARE A+; Stable / CARE A1 (09-May- 17)

						CARE A1 (02-Apr-19)		
7.	Non-fund-based - ST-Bank Guarantees	ST	-	-	1)CARE A3+ (17-Sep-20)	1)CARE A3; ISSUER NOT COOPERATING* (18-Mar-20) 2)CARE A2 (Under Credit watch with Negative Implications) (18-Nov-19) 3)CARE A1 (Under Credit watch with Negative Implications) (14-Oct-19) 4)CARE A1 (02-Apr-19)	1)CARE A1 (21-Jun- 18)	-
8.	Non-fund-based - ST-Proposed non fund based limits	ST	-	-	1)Withdrawn (17-Sep-20)	1)CARE A3; ISSUER NOT COOPERATING* (18-Mar-20) 2)CARE A2 (Under Credit watch with Negative Implications) (18-Nov-19) 3)CARE A1 (Under Credit watch with Negative Implications) (14-Oct-19) 4)CARE A1 (02-Apr-19)	1)CARE A1 (21-Jun- 18)	-
9.	Fund-based - LT- Proposed fund based limits	LT	-	-	1)CARE BBB+; Positive (17-Sep-20)	1)CARE BBB; Negative; ISSUER NOT COOPERATING* (18-Mar-20) 2)CARE A- (Under Credit watch with Negative Implications) (18-Nov-19) 3)CARE A+ (Under Credit watch with Negative Implications) (14-Oct-19) 4)CARE A+; Stable (02-Apr-19)	-	-

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities – Not available

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Proposed fund based limits	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Fund-based - LT/ ST-Working Capital Limits	Simple
5.	Fund-based/Non-fund-based-LT/ST	Simple
6.	Non-fund-based - ST-Bank Guarantees	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.

Contact us**Media Contact**

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com**Analyst Contact**

Monika Goenka

Contact no.- +91-020-4000 9019/8879300881

Email ID- monika.goenka@careratings.com**Relationship Contact**

Mr. Aakash Jain

Contact no. : +91-020-4000 9090

Email ID : aakash.jain@careratings.com**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**