Quippo Oil & Gas Infrastructure Limited

March 11, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities (Facility 1)*	135.00	**CARE A+ (SO); Credit Watch with Developing Implications [Single A Plus (Structured Obligation); Credit Watch with Developing Implications]**	**Placed on Credit Watch with Developing Implications**
Long-term Bank Facilities (Facility 2)#	31.88	**CARE A+ (SO); Credit Watch with Developing Implications [Single A Plus (Structured Obligation); Credit Watch with Developing Implications]**	**Placed on Credit Watch with Developing Implications**
Long/Short Term Bank Facilities (Facility 3)*	15.00	**CARE A+ (SO)/CARE A1+ (SO); Credit Watch with Developing Implications [Single A Plus (Structured Obligation)/A One Plus (Structured Obligation); Credit Watch with Developing Implications]**	**Placed on Credit Watch with Developing Implications**
Total	**181.88 (Rs. One Hundred Eighty One crore and Eighty Eight Lakhs only)**		

Details of facilities in Annexure-1

**backed by credit enhancement in the form of unconditional and irrevocable guarantee of Srei Infrastructure Finance Ltd (SIFL), # based on credit enhancement in the form of 'Put option' of SIFL.*

Detailed Rationale & Key Rating Drivers

The aforesaid ratings for the bank facilities (Facility 1 & 3) of Quippo Oil & Gas Infrastructure Ltd (QOGIL) aggregating Rs.150 crore is primarily based on the credit enhancement in the form of 'unconditional and irrevocable corporate guarantee' extended by SIFL (rated CARE A+/CARE A/CARE A1+; Credit Watch with Developing Implications) for the entire debt servicing obligation (i.e. payment of interest and/or other charges and principal repayment) during the full tenure of the facility. Furthermore, the rating for the bank facility (Facility 2) aggregating Rs.31.88 crore is based on credit enhancement in the form of 'Put Option' of SIFL for the entire debt servicing obligation (i.e. payment of interest and/or other charges and principal repayment) during the full tenure of the facility.

CARE has placed the rating assigned to the bank facilities of QOGIL on Credit Watch with Developing Implications. The rating action is on account of the ratings of SIFL being put on Credit Watch with Developing Implications.

The ratings assigned to SIFL are on credit watch with developing implications following the approval of a Composite Scheme of Arrangement and amalgamation amongst SIFL, Srei Equipment Finance Limited (SEFL; a wholly owned subsidiary of SIFL) and Srei Asset Reconstruction Private Limited (Srei Asset; a wholly owned subsidiary of SIFL) by the company's Board of Directors subject to the receipt of approval from the respective shareholders/creditors, and other statutory and regulatory approvals. The appointed date and effective date for the scheme shall be March 31, 2017.

As per the scheme of arrangement:

i. The "lease business" of SEFL will be demerged to Srei Asset; for which 10 fully paid up equity shares of Srei Asset of Rs.10 each will be issued for every 21 fully paid up equity shares of Rs.10 each held in SEFL.

ii. Subsequently, the remaining business undertakings of SEFL will amalgamate with and into SIFL. This being an amalgamation of a wholly owned subsidiary into its parent company, there will be no change in the shareholding pattern. On amalgamation, SEFL shall stand dissolved without being wound-up.

iii. On the completion of amalgamation, as aforesaid, the "Lease business", "Rental business" and "Equipment Finance Business" of SIFL will demerge into Srei Asset, pursuant to which Srei Asset will issue 1 full paid-up equity share of Rs.10 each for every 5 fully paid up equity shares of Rs.10 each held in SIFL to the shareholders of SIFL.

Pursuant to the Scheme becoming effective, SIFL will hold 22.08% equity capital of Srei Asset and the balance 77.92% shall be held by current shareholders of SIFL in the same proportion as held by them in SIFL. All the shareholders of SIFL would continue to be the ultimate beneficial economic owners of Srei Asset and the economic ownership of the Equipment Finance business (Srei Asset) will not change at all.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Further, Srei Assets has applied for a change of its name to "Srei Asset Finance Private Limited", and intends to subsequently convert itself into a public company, upon which it intends to be renamed as "Srei Asset Finance Limited". Pursuant to the scheme and on receipt of requisite approvals Srei Asset will be listed on the exchange. CARE will take a view on the ratings once the exact implications of the above scheme on the credit risk profile of SIFL are clear.

The ratings assigned to SIFL continue to draw strength from the satisfactory track record of the company with 'Infrastructure Finance Company' status from RBI and established experience of the promoter group with prominent position in infrastructure financing space. The ratings also factors in the growth in disbursements in FY18 (refers to the period April 1 to March 31) on a consolidated basis primarily due to growth in equipment finance business in wholly owned subsidiary SEFL, though disbursement on a standalone basis was relatively flat as compared to FY17. The ratings also take into account the satisfactory financial performance of the company in H1FY19 and comfortable liquidity profile as on September 30, 2018.

The ratings continue to remain constrained by the asset quality of SIFL, exposure in group companies and strategic investments some of which are in the infrastructure space and are yet to be divested/diluted to yield commensurate returns, high client concentration risk and low profitability.

Detailed description of the key rating drivers of SIFL

Experienced promoter group along with established track record of SIFL

Long track record of operation in construction equipment financing, existing client relationships in infrastructure space and market knowledge of the promoters have helped the company in effectively managing the infrastructure portfolio, as demonstrated through the notable growth in its business volume over the last three years.

The promoters, Mr. Hemant Kanoria (CMD) and his brother Mr. Sunil Kanoria (Vice Chairman) have over three decades of business experience in the financial sector.

Continuing growth in disbursements

On a consolidated basis, including SEFL, the disbursements increased significantly to Rs.22,726 crore in FY18 against Rs.17,604 crore in FY17 backed by significant growth in demand for construction and mining equipment. The outstanding gross advances (including assets on operating lease) increased to Rs.36,183.92 crore as on March 31, 2018 from Rs.28,608.41 crore as on March 31, 2017 mainly due to increase in portfolio outstanding of SEFL. The consolidated loan AUM increased from Rs.32,610.02 crore as on March 31, 2017 to Rs.41,755.05 crore as on March 31, 2018. During H1FY19, the consolidated disbursements was Rs.11,763 crore and the consolidated loan AUM stood at Rs.42,935.27 crore as on September 30, 2018.

The disbursement level of SIFL on a standalone basis remained relatively flat at Rs.5,736 crore in FY18 vis-a-vis Rs.5,889 crore in FY17. SIFL's loan portfolio (including operating lease assets), stood at Rs.13,611.60 crore as on March 31, 2018 vis-à-vis Rs.12,375.53 crore as on March 31, 2017. The loan portfolio stood at Rs.12,641.48 crore as on September 30, 2018.

Satisfactory gearing

The borrowings on a consolidated basis increased from Rs.26,204.16 crore as on March 31, 2017 to Rs.32,873.23 crore as on March 31, 2018. Accordingly, the overall gearing increased and stood at 6.60x as on March 31, 2018 vis-à-vis 5.67x as on March 31, 2017. The consolidated debt stood at Rs.36,316 crore as on September 30, 2018.

On a standalone basis, the overall gearing remained stable at 4.72x as on March 31, 2018 as compared to 4.60x as on March 31, 2017. The standalone gearing stood at 4.51x as on September 30, 2018.

Adequate capitalisation of SIFL

Tier I and overall CAR of SIFL remained stable at 13.71% and 17.60% respectively as on March 31, 2018 vis-à-vis Tier I and overall CAR of 13.81% and 18.94% respectively as on March 31, 2017.

Further, with divestment of stake in equipment finance business pursuant to the aforesaid scheme, the net owned funds of SIFL will increase.

Key Rating Weaknesses

Portfolio concentration risk

SIFL's clients mainly belong to infrastructure related sectors. Due to the nature and requirement of the infrastructure space, the ticket sizes are relatively large. Accordingly, concentration risk remains high for the company. The total exposure to 20 largest borrowers/customers was 48.72% of total exposure to borrowers/customers.

Continued low profitability, though improvement witnessed in FY18 and H1FY19

On a consolidated basis, the total income of the company increased by 13% y-o-y from Rs.4,665.76 crore in FY17 to Rs.5,261.66 crore in FY18 majorly due to growth in income of SEFL. With increase in interest spread during the year and lower provisions/write-offs, the company reported PAT of Rs.399.73 crore in FY18 vis-à-vis Rs.242.76 crore in FY17. NIM improved and stood at 5.89% in FY18 vis-à-vis 5.02% in FY17. Though ROTA and RONW has been low, the same improved from 0.82% and 6.13% respectively in FY17 to 1.07% and 8.33% in FY18. The total income increased from Rs.2,496.16 crore In H1FY18 to Rs.3,194.96 crore in H1FY19 with increase in interest income, operating lease income and net gain on fair value changes. Though the interest cost increased; the net profit increased and stood at Rs.250.52 crore in H1FY19 vis-à-vis Rs.151.19 crore in H1FY18 with relatively stable operating expenses and lower provisions/write-offs.

On a standalone basis, the total income of the company reduced by 23% y-o-y from Rs.2,299.62 crore in FY17 to Rs.1,773.62 crore in FY18, though interest income remained flat. This was on account of lower other income mainly due to the fact that other income in FY17 included income of Rs.536.33 crore arising from non-compete fee of Rs.205.55 crore received from stake sale in ATC Telecom Infrastructure Private Ltd and profit on sale of investments of Rs.318.35 crore. The provisions/write-offs was lower at Rs.94.95 crore during FY18 vis-à-vis Rs.547.56 crore during FY17 as the company had provided for significant amount of stressed assets/NPAs as a proactive measure. The operating expenses, depreciation cost and finance cost were also lower y-o-y in FY18. Consequently, the profitability improved and the company reported PAT of Rs.123.47 crore in FY18 vis-à-vis Rs.96.07 crore in FY17. Though ROTA has been low, it improved from 0.55% in FY17 to 0.72% in FY18. On, a standalone basis the company reported PAT of Rs.59.31 crore on total income of Rs.860.18 crore in H1FY19 vis-à-vis PAT of Rs.48.12 crore on total income of Rs.879.77 crore in H1FY18.

Asset quality

On a standalone basis, the Gross NPA ratio and the Net NPA ratio continued to remain high at 4.20% and 3.21% respectively as on March 31, 2018. Standard restructured assets reduced to Rs.45.65 crore as on March 31, 2018 as compared to Rs.212.02 crore as on March 31, 2017. However, the assets acquired in satisfaction of debt increased from Rs.711.76 crore as on March 31, 2017 to Rs.1,725.41 crore as on March 31, 2018.

On a consolidated basis, net NPA improved to 2.31% as against 2.57% in FY17.

The company has adopted IND AS from April 1, 2018. On a standalone basis, the gross stage 3 assets stood at Rs.1,812.01 crore as on September 30, 2018.

High exposure in subsidiaries, associates, joint venture companies and strategic investments

SIFL's exposure (in the form of both investments and loans & advances) in subsidiaries, associates and joint venture companies reduced to Rs.1,078.56 crore as on March 31, 2018 (forming 36% of its tangible net worth) as against Rs.1279.04 crore as on March 31, 2017 (forming 45% of its tangible net worth). Apart from this, SIFL has also given corporate guarantee/guarantee for bank facilities of its group companies and the outstanding balance stood at Rs.163.34 as on March 31, 2018 crore vis-à-vis Rs.142.06 crore as on March 31, 2017. Some of the group & subsidiary companies where SIFL has exposure are yet to generate returns and have long gestation period.

Further SIFL's direct investment towards various private funds managed by its subsidiaries increased and stood at Rs.129.87 crore as on March 31, 2018 vis-à-vis Rs.79.87 crore as on March 31, 2017.

Resource Profile

The company continued to have relatively higher dependence on bank borrowings in the form of cash credit which stood at around 54% of borrowings as on March 31, 2018. While this has provided SIFL with liquidity buffer in the form of unutilized lines of credit, there is a need to reduce dependence on bank borrowings. Apart from cash credit from banks, term borrowings (NCD, ECBs, term loans) and commercial papers was 34% and 6% respectively of borrowings as on March 31, 2018.

Liquidity

SIFL had comfortable liquidity profile with no cumulative mismatch in any of the less than one year buckets as on September 30, 2018. Further, the company has cushion in the form of undrawn fund based limits.

Analytical approach: The rating is based on the assessment of SIFL, the entity providing credit enhancement for rated debt of QOGIL.

Applicable Criteria

CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology - Factoring linkages in Ratings
Rating Methodology-Non Banking Finance Companies
Financial ratios – Financial sector
Criteria for placing rating on Credit Watch

About the Company

QOGIL, which began operations in 2005, is a part of Quippo group (Promoted by Kanoria family of Srei group) having established position in the business of renting of infrastructure equipment servicing the high growth verticals of construction, oil & gas, telecom and energy. Presently, QOGIL is a wholly owned subsidiary of SIFL. QOGIL is an Onshore Rig Service provider with an international presence. QOGIL's primary focus is on providing drilling rigs equipped with the latest technology, equipment, and world class crew. Most of the rigs are equipped with top drives to undertake highly specialized drilling operations in technically challenging environment.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	142.57	186.16
PBILDT	20.04	9.55
PAT	2.53	7.13
Overall gearing (times)	NM	NM
Interest coverage (times)	1.31	0.84

A: Audited, NM: Not Meaningful

About SIFL

SIFL, a 28 year old Kolkata-based NBFC, has been engaged in leasing and hire-purchase/hypothecation financing of heavy construction equipment and financing of infrastructure related projects. Pursuant to forming a 50:50 joint venture (JV) with BNP Paribas Lease Group (BPLG), SIFL divested a major part of its equipment financing and leasing business to SEFL. Post divestment, SIFL is engaged in project financing and infrastructure project advisory. SIFL is classified as 'NBFC-IFC' by RBI and it has also received 'Public Finance Institution' status from the Ministry of Corporate Affairs, GoI.

In June 2016, SIFL acquired the 50% stake of BPLG in SEFL, resulting in SEFL becoming a 100% subsidiary of SIFL and BPLG acquiring 5% stake of SIFL against its shareholding in SEFL.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total income	4,665.76	5,261.66
PAT	242.76	399.73
Interest coverage (times)	1.57	1.57
Total Assets	33,384.56	41,466.60
Net NPA (%) @	2.57	2.31
ROTA (%)	0.82	1.07

A: Audited

@For calculating consolidated asset quality ratios the standalone NPA figures and advances of SIFL and SEFL have been combined

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is 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.

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-Bank Guarantees	-	-	-	135.00	CARE A+ (SO) (Under Credit watch with Developing Implications)
Term Loan-Long Term	-	-	Jan'20	31.88	CARE A+ (SO) (Under Credit watch with Developing Implications)
Non-fund-based - LT/ ST-Loan Equivalent Risk	-	-	-	15.00	CARE A+ (SO) / CARE A1+ (SO) (Under Credit watch with Developing Implications)

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT-Bank Guarantees	LT	135.00	CARE A+ (SO) (Under Credit watch with Developing Implications)	1)CARE A+ (SO); Stable (06-Jul-18)	1)CARE A+ (SO); Stable (20-Jul-17)	1)CARE A+ (SO) (17-Aug-16)	1)CARE A+ (SO) (17-Mar-16) 2)CARE A+ (SO) (14-Oct-15) 3)CARE AA- (SO) (06-Apr-15)
2.	Fund-based/Non-fund-based-Long Term	-	-	-	-	-	-	1)CARE A+ (SO) (14-Oct-15) 2)CARE AA- (SO) (06-Apr-15)
3.	Non-fund-based - LT-BG/LC	-	-	-	-	-	-	1)CARE A+ (SO) (14-Oct-15) 2)CARE AA- (SO) (06-Apr-15)
4.	Term Loan-Long Term	LT	31.88	CARE A+ (SO) (Under Credit watch with Developing Implications)	1)CARE A+ (SO); Stable (06-Jul-18)	1)CARE A+ (SO); Stable (20-Jul-17)	1)CARE A+ (SO) (17-Aug-16)	1)CARE A+ (SO) (17-Mar-16) 2)CARE A+ (SO) (14-Oct-15) 3)CARE AA- (SO) (06-Apr-15)
5.	Non-fund-based - LT/ ST-Loan Equivalent Risk	LT/ST	15.00	CARE A+ (SO) / CARE A1+ (SO) (Under Credit watch with Developing Implications)	1)CARE A+ (SO) / CARE A1+ (SO) (06-Jul-18)	-	-	-

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