Quippo Oil & Gas Infrastructure Limited

August 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities (Facility 1)*	135.00	**CARE A- (CE); Credit Watch with Negative Implications [Single A Minus (Credit Enhancement); Credit Watch with Negative Implications]**	**Revised from CARE A+ (SO); Credit Watch with Developing Implications [Single A Plus (Structured Obligation); Credit Watch with Developing Implications]**
Long-term Bank Facilities (Facility 2)#	15.62 (reduced from 31.88)	**CARE A- (CE); Credit Watch with Negative Implications [Single A Minus (Credit Enhancement); Credit Watch with Negative Implications]**	**Revised from CARE A+ (SO); Credit Watch with Developing Implications [Single A Plus (Structured Obligation); Credit Watch with Developing Implications]**
Long/Short Term Bank Facilities (Facility 3)*	15.00	**CARE A- (CE)/CARE A2+ (CE); Credit Watch with Negative Implications [Single A Minus (Credit Enhancement)/A Two Plus (Credit Enhancement); Credit Watch with Negative Implications]**	**Revised from 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]**
Total	**165.62 (Rs. One Hundred Sixty Five crore and Sixty Two 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 A2+; Credit Watch with Negative Implications for bank facilities) 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.15.62 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.

The revision in the ratings assigned to QOGIL follows a revision in the ratings of SIFL.

The revision in the ratings assigned to SIFL takes into account the significant deterioration in asset quality and peripheral capital adequacy as on March 31, 2019.

The ratings also factors in the de-growth in disbursements in FY19 (refers to the period April 1 to March 31) and Q1FY20 on a consolidated basis along with low profitability in FY19 which further declined in Q1FY20. Further, the consolidated overall gearing remained high as on June 30, 2019 due to delay in raising equity. On a standalone basis, the Capital Adequacy Ratio (CAR) of SIFL reached peripheral level as on March 31, 2019 with tier I CAR at 10.79% and overall CAR at 15.57% as against regulatory requirement of 10% and 15% respectively. Also, NIM (on a standalone basis) deteriorated sharply in FY19 and Q1FY20.

The asset quality witnessed further deterioration as on March 31, 2019 with consolidated Gross NPA and Net NPA as a percentage of advances increasing to 13.25% and 10.61% as against 10.69% as and 6.20% on March 31, 2018 (restated as per IND AS) respectively. Net NPA as a percentage of advances remained stressed at 11.18% as on June 30, 2019. Further, the company has witnessed increase in consolidated total vulnerable assets (net NPA + assets acquired in satisfaction of debt and repossessed assets) to Rs.4,355.05 crore as on March 31, 2019 from Rs.4,065.25 crore as on March 31, 2018; which further increased and stood at Rs.4,620.90 crore as on June 30, 2019. The total vulnerable assets (restated as per IND AS) exceeded tangible networth as on Mar.31, 2018 and continued to remain so as on June 30, 2019 due to the combined effect of increase in such assets and lower networth on adoption of IND AS. On a standalone basis also, asset quality witnessed deterioration.

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

The ratings assigned to SIFL continue to draw strength from the long track record of the company, established experience of the promoter group with prominent position in infrastructure financing space and experienced management. The company on a consolidated basis had a sizeable AUM of Rs.39,853 crore as on June 30, 2019.

The ratings continue to remain constrained by 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 concentrated resource profile. The ratings also factor in the moderate liquidity profile.

The ratings assigned to SIFL were on credit watch with developing implications due to approval of a composite scheme of arrangement and amalgamation amongst SIFL, Srei Equipment Finance Ltd (SEFL, 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 in January 2019.

However, the Board of Directors of SIFL and SEFL, at their meeting held on July 4, 2019, have called off the above restructuring scheme and decided to consolidate the lending business of SIFL and SEFL into one entity. The Boards have approved transfer of Lending Business, Interest Earning Business & Lease Business ("Transferred Undertaking") of SIFL into SEFL, together with associated employees, assets and liabilities (including liabilities towards issued and outstanding non-convertible debentures issued by SIFL), as a going concern basis by way of slump exchange, for a lump sum consideration, without values being assigned to the individual assets and liabilities, which shall be discharged by SEFL by way of issue and allotment of equity shares of SEFL to SIFL ("Slump Exchange").

The total income of the transferred undertaking constitutes 95.52% of the total income of SIFL and net assets of the transferred undertaking (representing difference between total assets & total liabilities of Transferred undertaking) represents 32.64% of the net assets of SIFL.

SIFL will remain as the 100% shareholder of SEFL and continue to operate as an investments company. It will generate only fee based income/income from investments and all lending will be done through SEFL. Further, debt level in SIFL is expected to reduce substantially with transfer of same to SEFL.

The transfer of assets/liabilities is expected to be completed by September 2019. The company is in the process of getting the approvals and preparing the merged accounts of SEFL and the resultant accounts of SIFL.

CARE will take a view on the ratings once the scheme has been implemented and the exact implications of the above scheme are clear.

However, considering the low profitability, deterioration in asset quality and peripheral CAR of SIFL, the ratings have been placed on credit watch with negative implications. CARE will continue to closely monitor the developments with respect to asset quality, CAR and profitability.

Detailed description of the key rating drivers of SIFL

Key Rating Strengths

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 few years.

Experienced promoter group

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

Key Rating Weaknesses

De-growth in disbursements and advances outstanding

On a consolidated basis, including SEFL, disbursements were lower by about 7% from Rs.22,726 crore in FY18 to Rs.21,229 crore in FY19 mainly due to lower disbursements by SEFL to restrict growth for maintaining regulatory capital adequacy. Further, with liquidity crisis in the NBFC sector during H2FY19, resource mobilisation was also impacted.

The standalone disbursement level of SIFL witnessed growth from Rs.5,736 crore in FY18 to Rs.7,257 crore in FY19.

SIFL's major focus continued to be power, road, urban infrastructure, telecom and SEZ & industrial parks, while in SEFL, disbursements to construction and mining equipment (CME) and used equipment segments continued to dominate overall disbursements.

Despite growth in disbursement, SIFL's standalone loan portfolio (including operating lease assets), decreased from Rs.13,886.07 crore as on March 31, 2018 to Rs.11,001.89 crore as on March 31, 2019 due to significant collection of loans during FY19 on exercise of put option and prepayments.

This, along with relatively similar size of portfolio in SEFL led to reduction in outstanding advances (incl. assets on operating lease) to Rs.35,431.40 crore as on March 31, 2019 from Rs.37,184.23 crore as on March 31, 2018 on a consolidated basis.

The consolidated loan AUM (including off-book assets) reduced marginally to Rs.40,909.16 crore as on March 31, 2019 vis-a-vis Rs.41,476.19 crore as on March 31, 2018.

In Q1FY20, the consolidated disbursement was lower at Rs.3,888 crore vis-à-vis Rs.5,941 crore in Q1FY19. Consequently, the consolidated loan AUM reduced further to Rs.39,853 crore as on June 30, 2019.

Growth in total income along with stable profitability during FY19, albeit significant decline in profitability during Q1FY20

On a consolidated basis, the total income of SIFL increased by 20% y-o-y from Rs.5,384.17 crore in FY18 to Rs.6,469.41 crore in FY19 due to growth in income of SEFL. SEFL's total income witnessed a significant growth of about 27% on a y-o-y basis from Rs.3,440.21 crore in FY18 to Rs.4,366.84 crore in FY19 primarily due to increase in interest income (incl. securitisation income) and operating lease income with increase in benchmark interest rates by 2% from Q3FY19. SIFL on a standalone basis witnessed marginal de-growth in total income with reduction in advances outstanding.

The consolidated interest cost also increased by 20% in FY19 due to debt funded growth in latter part of FY18 along with increase in average borrowing cost.

Accordingly, net interest income remained relatively stable at Rs.1,717.17 crore in FY19 vis-à-vis Rs.1,630.10 crore in FY18. However, other income increased substantially during FY19 (mainly gain on derecognition of assets, sale of services, fee & commission income and other income). As a result, the PAT improved to Rs.486.78 crore (from Rs.377.29 crore in FY18) during FY19 despite overall increase in operating expenses, provisions/write-offs, depreciation and interest cost. Even then, return indicators continued to remain low with ROTA at 1.16% in FY19 (0.98% in FY18). Consolidated NIM stood at 4.08% in FY19 vis-à-vis 4.24% in FY18. However, RONW improved from 10.36% in FY18 to 12.34% in FY19.

SIFL reported consolidated PAT of Rs.42.67 crore on total income of Rs.1,582.58 crore in Q1FY20 vis-à-vis PAT of Rs.139.55 crore on total income of Rs.1,548.65 crore in Q1FY19. The profitability of the company was impacted largely on account of increase in cost of borrowings and significant increase in provisions/write-offs. Accordingly, the return indicators moderated further during Q1FY20.

Deterioration in asset quality

The asset quality has witnessed significant deterioration due to both increase in delinquencies and new accounting principles. The consolidated Gross NPA increased significantly from Rs.993.88 crore as on March 31, 2018 (I GAAP) to gross stage III assets of Rs.3469.65 crore as on March 31, 2018 on transition to IND AS primarily on account of inclusion of advances pertaining to customers in NCLT and restructured assets. Subsequently, the gross and net stage III assets have increased significantly to Rs.4053.49 crore and Rs.3149.95 crore respectively as on March 31, 2019. Gross stage III and Net stage III assets as a percentage of advances deteriorated from 10.69% and 6.20% respectively as on March 31, 2018 to 13.25% and 10.61% respectively as on March 31, 2019. Both further increased to 14.27% and 11.18% respectively as on June 30, 2019.

Total vulnerable assets continued to remain significantly high at Rs.4,355.05 crore as on March 31, 2019 as against a consolidated networth of Rs.4,099.91 crore. The same deteriorated further to Rs.4,620.90 crore as on June 30, 2019.

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

SIFL's exposure (in the form of both investments and loans) in subsidiaries, associates and joint venture companies decreased to Rs.2,365.08 crore as on March 31, 2019 (forming 79% of its tangible net worth) as against Rs.2,779.29 crore as on March 31, 2018. Major exposure in subsidiaries was to SEFL (Rs.2130.43 crore) which includes fair valuation of investment in SEFL.

Apart from exposure in subsidiaries/associates, SIFL has exposure in companies which are involved into execution of infrastructure projects where the gestation period is very long and accordingly has weaker financial profile. These are yet to generate returns and the management expects to achieve higher return in the long term in view of long gestation period involved in such projects. Accordingly, the ability of these companies to yield commensurate returns, as also SIFL's ability to liquidate these exposures in a timely and profitable manner remains crucial (as the same shall have impact on its capitalisation and profitability profile, going forward).

SIFL's direct investment towards various private funds managed by its subsidiaries was Rs.355.61 crore as on March 31, 2019 vis-à-vis Rs.388.39 crore as on March 31, 2018.

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 45.51% as on March 31, 2019 of total exposure to borrowers/customers (40.60% as on March 31, 2018). In SEFL, top 20 advances contributed to 26% of gross advances (incl. operating lease) as on March 31, 2019 as against 17% as on March 31, 2018.

Concentrated resource profile

SIFL has a concentrated borrowing mix with high reliance on bank borrowings. Around 17% of its total borrowings as on March 31, 2019 (vis-à-vis 20% as on March 31, 2018) were in the form of term loans (from domestic banks, financial institutions and foreign institutions), which are of longer tenure. Working capital borrowings comprised about 54% of the

total borrowing as on March 31, 2019 (vis-à-vis 64% of the total borrowing as on March 31, 2018). Hence, there is high reliance on borrowings from banks. However, the company has limits from 27 banks.
The balance borrowings were in the form of debentures and other sources like mezzanine capital (about 22% as on March 31, 2019 vis-à-vis about 23% as on March 31, 2018).

Subdued scenario in NBFC sector
Post September 2018, the NBFCs have been facing liquidity crisis with reduced confidence from the investors and lenders. The crisis has been more pronounced for wholesale NBFCs. Improvement in the funding scenario with availability of funds at competitive rates to sustain growth in disbursements is critical from a credit perspective.

Liquidity
Liquidity position of SIFL on a standalone basis as per statutory ALM appears adequate with assets maturing in upto one year bucket exceeding the corresponding liabilities as on March 31, 2019 and the company has cumulative surplus of Rs.698.03 crore upto 1 year. The company does not have mismatch in any bucket of upto 1 year. However, the company has considered exercise of put option in advances of Rs.2072.31 crore in the upto one year bucket, the timely realisation of which as estimated is critical for meeting liquidity requirements. Further, maturity of cash credit limits has been considered in line with maturity of underlying assets in view of the revolving nature of such facilities. Considering that the cash credit limits are to be classified in the upto one year bucket, the company would have mismatch in the six months to one year bucket.
As on June 30, 2019, the company had cash balance of ~Rs.115 crore vis-à-vis expected outflows of Rs.564.48 crore upto December 2019. Further, it had unutilised available lines of credit of Rs.175 crore as on July 18, 2019.
The liquidity position of SEFL as per statutory ALM submitted to RBI reflects that assets maturing in upto one year bucket exceeds the corresponding liabilities as on March 31, 2019 and the company had cumulative surplus of Rs.1,582.30 crore upto 1 year. The maturity of cash credit limits has been considered in line with maturity of underlying assets in view of the revolving nature of such facilities. However, considering that the cash credit limits are to be classified in the upto one year bucket, the company would have mismatch in the six months to one year bucket. SEFL had free cash of ~Rs.321 crore as on June 30, 2019 and unutilized lines of credit of ~Rs.830 crore as of July'19. Further, the company also has presence in the securitization market which provides liquidity.

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
Rating Methodology: Factoring Linkages in Ratings
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology- Non Banking Finance Companies (NBFCs)
Financial ratios –Financial Sector
Financial ratios – Non-Financial Sector

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. 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)	FY18 (A)	FY19 (A)
Total operating income	191.86	283.87
PBILDT	13.15	24.84
PAT	4.37	3.22
Overall gearing (times)	NM	NM
Interest coverage (times)	0.59	1.02

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)	FY18 (A)	FY19 (A)
Total income	5,384.17	6,469.42
PAT	377.29	486.78
Interest coverage (times)	1.56	1.56
Total Assets	42,693.39	41,381.80
Net NPA (%)	6.20	10.61
ROTA (%)	0.98	1.16

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

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- (CE) (Under Credit watch with Negative Implications)
Term Loan-Long Term	-	-	Jan'20	15.62	CARE A- (CE) (Under Credit watch with Negative Implications)
Non-fund-based - LT/ ST-Loan Equivalent Risk	-	-	-	15.00	CARE A- (CE) (Under Credit watch with Negative Implications) / CARE A2+ (CE) (Under Credit watch with Negative 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - LT-Bank Guarantees	LT	135.00	CARE A- (CE) (Under Credit watch with Negative Implications)	-	1)CARE A+ (SO) (Under Credit watch with Developing Implications) (11-Mar-19) 2)CARE A+ (SO); Stable (06-Jul-18)	1)CARE A+ (SO); Stable (20-Jul-17)	1)CARE A+ (SO) (17-Aug-16)
2.	Term Loan-Long Term	LT	15.62	CARE A- (CE) (Under Credit watch with Negative Implications)	-	1)CARE A+ (SO) (Under Credit watch with Developing Implications) (11-Mar-19) 2)CARE A+ (SO); Stable (06-Jul-18)	1)CARE A+ (SO); Stable (20-Jul-17)	1)CARE A+ (SO) (17-Aug-16)
3.	Non-fund-based - LT/ ST-Loan Equivalent Risk	LT/ST	15.00	CARE A- (CE) (Under Credit watch with Negative Implications) / CARE A2+ (CE) (Under Credit watch with Negative Implications)	-	1)CARE A+ (SO) / CARE A1+ (SO) (Under Credit watch with Developing Implications) (11-Mar-19) 2)CARE A+ (SO) / CARE A1+ (SO) (06-Jul-18)	-	-

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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