Veer Energy & Infrastructure Limited

June 6, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	3.00	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Revised from CARE BBB-; Negative (Tripled B Minus; Outlook: Negative)**
Short-term Bank Facilities	13.00	**CARE A4+ (A Four Plus)**	**Revised from CARE A3 (A Three)**
Total facilities	**16.00 (Rupees Sixteen crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Veer Energy & Infrastructure Limited (VEIL) takes into account a significant decline of total operating income (TOI) in Q4FY19 (refers to the period January 1 to March 31) over Q3FY19 & Q4FY18 coupled with operating and net loss posted in the same period.. The ratings, further, continue to be constrained by VEIL's small scale of operations with moderate order book position and lower execution of the same, significant decline in the profit margins in FY19 over FY18, stretched operating cycle and customer concentration and regulatory risk.
The ratings, however, continue to derive strength from its experienced management, established track record of operations, comfortable capital structure and debt coverage indicators.
VEIL's ability to increase its scale of operations by timely execution of its existing order book, improve profitability through diversification into different segments while maintaining its capital structure and efficient working capital management are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Significant decline in scale of operations: VEIL's scale of operations continues to remain small and the same has significantly declined over the past three years with a total operating income ranging between Rs.15.86 crore to Rs.17.69 crore during FY17 to FY19 as against Rs.49.02 crore FY16 owing to lower level of activities from windmill projects segment resulting in lower order executions during the said periods. Moreover, given the significant slowdown in the wind sector, the total operating income (TOI) declined by 69.20% y-o-y and 91.20% q-o-q to Rs.1.13 crore in Q4FY19.

Significant decline in the profit margins in FY19 over FY18: The profit margins of VEIL have significantly deteriorated during FY19 over FY18 with PBILDT and PAT margin at 16.10% and 6.22% respectively in FY19 from 20.94% and 17.04% respectively in FY18 due to significant bad debts incurred in that year. Moreover, during Q4FY19, the company has posted operating and net loss of Rs.0.36 crore and Rs.0.80 crore respectively due to significant bad debts as well as fixed overheads against lower level of TOI. Hence, going forward ability of the company to increase its scale of operations and improve its profitability remains would remain critical.

Stretched operating cycle: VEIL identifies the wind rich sites for its wind farms and then goes for governmental approvals/clearance for the site. Subsequently, it develops a substation and transmission line connecting the main grid of government. The company goes for marketing this site post this stage hence the inventory is held for longer time with VEIL and remains so until it finds investors for its site. All these primary activities take around 18 months. Further, due to slowdown in the wind EPC projects execution and decline in TOI, the inventory holding has significantly increased during past three years which has further resulted in stretched operating cycle.

Moderate order book position with lower execution: The order book position of VEIL remained comfortable at 7.26 times of total operating income of FY18 imparting a moderate level of revenue visibility in the medium term, however the same has been stuck up owing to slower executions on the back of muted market sentiments in the wind power market.

Customer concentration and regulatory risk: Over the last 5 years, majority (around 65-80%) of the revenue generated by VEIL is from its wind turbine manufacturing clients who face regulatory risks with regards to generation based incentive scheme changes as well as changes to accelerated depreciation by government thereby affecting the demand for wind farms. The company has diversified its revenue streams in engineering, solar and civil construction divisions during past two

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

years. However, majority of the revenue still derived from the wind infrastructure and developments and thus implies concentration risk.

Key Rating Strengths

Experienced promoters with established track record: The key promoters of VEIL, Mr. Yogesh Shah and Mr. Prakash Shah have over three decades of experience in varied business domains for financial consulting, project oriented works and land acquisitions. Further, the directors are assisted by team of qualified and experienced senior management who have been associated with VEIL for over a decade.

Comfortable capital structure & debt coverage indicators: VEIL's solvency position is characterized by comfortable capital structure and debt coverage indicators. During past three balance sheet dates ended March 31, 2019, the company's capital structure has remained comfortable primarily on account of minimum dependence on external borrowings for its working capital requirement. Further, on account of the same along with declining albeit moderate profitability, the debt coverage indicators of VEIL have remained comfortable during FY16-FY19.

Liquidity Analysis

The liquidity position of the company is moderately comfortable marked by comfortable current ratio and quick ratio at 25.38 times and 6.45 times respectively as on March 31, 2019 (vis-à-vis 5.51 times and 2.06 times respectively as on March 31, 2018), whereas the free cash & bank balance stood at Rs.1.54 crore as on March 31, 2019 (vis-à-vis Rs.0.06 crore as on March 31, 2018). The average cash credit limit utilization in the last 12 months ended April 2019 stood at 27.69%, whereas the net cash flow from operating activities stood positive at Rs.9.46 crore in FY19 (vis-à-vis negative at Rs.7.08 crore in FY18), owing to significant amount of recoveries of loans lent to outside parties.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Methodology for Short-term Instruments
CARE's Policy on Default Recognition
CARE's Methodology for Manufacturing Companies
Financial ratios (Non-Financial Sector)

About the Company

Initially incorporated as Jhantla Investments Limited in 1980 and renamed in 2006, Veer Energy & Infrastructure Limited (VEIL) is primarily engaged into power infrastructure development (wind farm development) & construction of buildings, wind power generation and providing O&M services to wind power projects. During April 2013, VEIL has diversified into engineering works [providing job work service especially to wind turbines generator (WTG) manufacturers, automobiles, steel, textile machinery and dies & moulds industry)].

However, given the muted market sentiments in the wind sector, the company has planned to diversify its operations by entering into the solar Engineering Procurement Construction (EPC) and construction EPC segments from FY18 onwards. Moreover, the company operates a 2.2 MW wind power plant at Kutchh in Gujarat, for the off take of which, the power purchase agreement (PPA) has been entered into with Gujarat Urja Vikas Nigam Limited (GUVNL).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	15.86	17.69
PBILDT	3.32	2.85
PAT	2.70	1.10
Overall gearing (times)	0.12	0.00
Interest coverage (times)	32.49	15.15

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 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-Cash Credit	-	-	-	3.00	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	13.00	CARE A4+

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.	Fund-based - LT-Cash Credit	LT	3.00	CARE BB+; Stable	-	1)CARE BBB-; Negative (03-Sep-18)	1)CARE BBB-; Negative (22-Mar-18) 2)CARE BBB-; Negative (02-May-17)	1)CARE BBB- (13-Apr-16)
2.	Non-fund-based - ST-BG/LC	ST	13.00	CARE A4+	-	1)CARE A3 (03-Sep-18)	1)CARE A3 (22-Mar-18) 2)CARE A3 (02-May-17)	1)CARE A3 (13-Apr-16)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (22-Mar-18) 2)CARE BBB-; Negative (02-May-17)	1)CARE BBB- (13-Apr-16)

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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