

Veer Energy & Infrastructure Limited

March 22, 2018

Ratings

| Facilities | Amount (Rs. crore) | Ratings ¹ | Rating Action |
|--|--|--|---------------|
| Long-term Bank Facilities (Term Loan) | 0.00 | - | Withdrawn |
| Long-term Bank Facilities (Cash Credit) | 3.00 | CARE BBB-; Negative (Triple B Minus; Outlook: Negative) | Reaffirmed |
| Short-term Bank Facilities | 13.00 | CARE A3 (A Three) | Reaffirmed |
| Total | 16.00 (Rupees Sixteen crore only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Veer Energy & Infrastructure Limited (VEIL) continue to derive strength from its experienced management, established track record of operations and financial risk profile characterized by moderate profit margins, and comfortable capital structure & debt coverage indicators.

The ratings however, continue to be constrained by VEIL's small scale of operations with moderate order book, stretched operating cycle, customer concentration risk and regulatory risk. The ratings also factor in the significant decline in the scale of operations coupled with significant elongation in the operating cycle in FY17 (refers to the period April 1 to March 31).

VEIL's ability to increase its revenue while strengthening the 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.

Outlook: Negative

The outlook is 'Negative' on account of expectation of decline in operating income with slower execution of order book as well as deterioration in liquidity position. The outlook may be revised to 'Stable' if VEIL is able to scale up its operations as envisaged and improve its financial position.

Detailed description of the key rating drivers

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 and debt coverage indicators with moderate profitability: VEIL's financial profile is characterized by favourable capital structure and comfortable debt coverage indicators. During FY14-FY17, the company's capital structure has remained favourable primarily on account of minimum dependence on external borrowings for its working capital requirement. Further, on account of the same the debt coverage indicators of VEIL have remained comfortable during FY14-FY17. Further although the profitability has been fluctuating it remained at moderate level during last three years ending FY17.

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

Key Rating Weaknesses

Small scale of operations: VEIL's scale of operations is small with a total operating income of Rs.17.82 crore in FY17 (vis-à-vis Rs.49.02 crore in FY16) owing to and fluctuating demand scenario from windmill projects resulting in slow order executions. Further, the ROCE remained low during the period owing to lower order execution.

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 resulting in higher operating cycle.

Moderate order book position: The order book position of VEIL remained comfortable at 5.41 times of total operating income of FY17 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 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.

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, VEIL is primarily engaged into power infrastructure development (wind farm development) & construction of buildings, roads, etc., 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 dyes & mould industry). However, given the muted market sentiments in the wind sector, the company has planned to diversify by entering into the solar Engineering Procurement Construction (EPC) market from FY18 onwards.

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|------------------------------|----------|----------|
| Total operating income | 49.02 | 17.82 |
| PBILD | 3.11 | 1.45 |
| PAT | 1.50 | 1.20 |
| Overall gearing (times) | 0.19 | 0.15 |
| Interest coverage (times) | 6.59 | 3.02 |

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

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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****For detailed Rationale Report and subscription information, please contact us at www.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 credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. 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.

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 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 BBB-; Negative |
| Non-fund-based - ST-BG/LC | - | - | - | 13.00 | CARE A3 |
| Fund-based - LT-Term Loan | - | - | - | 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 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 |
| 1. | Fund-based - LT-Cash Credit | LT | 3.00 | CARE BBB-; Negative | 1)CARE BBB-; Negative (02-May-17) | 1)CARE BBB- (13-Apr-16) | 1)CARE BBB- (10-Apr-15) | - |
| 2. | Non-fund-based - ST-BG/LC | ST | 13.00 | CARE A3 | 1)CARE A3 (02-May-17) | 1)CARE A3 (13-Apr-16) | 1)CARE A3 (10-Apr-15) | - |
| 3. | Fund-based - LT-Term Loan | LT | - | - | 1)CARE BBB-; Negative (02-May-17) | 1)CARE BBB- (13-Apr-16) | 1)CARE BBB- (10-Apr-15) | - |

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