

## Veer Energy & Infrastructure Limited

September 03, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	3.00	<b>CARE BBB-; Negative</b> (Triple B Minus; Outlook: Negative)	<b>Reaffirmed</b>
Short-term Bank Facilities	13.00	<b>CARE A3</b> (A Three)	<b>Reaffirmed</b>
<b>Total facilities</b>	<b>16.00</b> (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 FY18 (refers to the period April 1 to March 31).

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.

### Outlook: Negative

The outlook is 'Negative' on account of expectation of lower revenue in mid-term due to slower execution of order book and 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 comfortable capital structure and debt coverage indicators. During FY16-FY18, 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 the debt coverage indicators of VEIL have remained comfortable during FY15-FY18. Further, although the profitability has been fluctuating, it remained at moderate level during last three years ending FY18.

#### Key Rating Weaknesses

**Small and declining scale of operations:** VEIL's scale of operations is small and the same has significantly declined in FY17 and FY18 over FY16 with a total operating income of Rs.15.86 crore in FY18 (vis-à-vis Rs.17.96 crore in FY17) owing to 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. Furthermore, the company has also undertaken civil construction contracts during past two years which remained unexecuted which has resulted in stretched operating cycle.

**Moderate order book position:** 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.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**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. The company has diversified its revenue streams in engineering, solar and civil construction divisions during past two years. However, majority of the revenue still derived from the wind infrastructure and developments and thus implies concentration risk.

**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) market from FY19 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)	FY17 (A)	FY18 (A)
Total operating income	17.96	15.86
PBILDT	1.44	3.32
PAT	1.19	2.70
Overall gearing (times)	0.15	0.11
Interest coverage (times)	3.00	32.49

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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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 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

#### 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.	Fund-based - LT-Cash Credit	LT	3.00	CARE BBB-; Negative	-	1)CARE BBB-; Negative (22-Mar-18) 2)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 (22-Mar-18) 2)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)Withdrawn (22-Mar-18) 2)CARE BBB-; Negative (02-May-17)	1)CARE BBB- (13-Apr-16)	1)CARE BBB- (10-Apr-15)

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