Velankani Information Systems Ltd

March 16, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities- Term Loan	143.42 (reduced from 190.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Long term Bank Facilities- LRD	291.56 (enhanced from 304.90)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Long term- Bank Facilities- LRD- Proposed	-	-	Withdrawn @
Proposed Non-Convertible Debentures	1000	Provisional CARE BB+, Stable (Double B plus; Outlook: Stable)	Assigned #
Total Facilities	1434.98 (Rs. One thousand four hundred thirty four crore and ninety eight lakh only)		

Details of instruments/facilities in Annexure-1| @Rating withdrawn as the company did not raise the proposed debt.
#The rating assigned is Provisional and will be confirmed once the company submits copies of relevant executed documents to the satisfaction of CARE.

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of Velankani Information Systems Limited (VISL) is on account of the high execution risk associated with the upcoming 1.5msf of commercial space in the existing premises to be likely funded partly with high cost NCDs of Rs. 1000 crore. The revision also factors in continued increasing exposure in the form of loans and advances to its wholly owned loss making subsidiary, Velankani Electronics P Ltd (VEPL). However, the rating positively factors in favorable location of the property which has resulted in almost full occupancy levels at IT Park at competitive rentals and consistent performance of the hotel with Revpar picking up in 9MFY20 after slight moderation in FY19. The rating also factors in favorable structuring of rated term loans with elongated tenor and savings on management fees due to non-renewal of management contract of the hotel with IHG. These rating strengths are partially offset by inherent renewal risk of lease agreements and cyclical nature of the hotel industry. The rating of NCDs are also constrained by presence of Events of Default conditions including failure to achieve construction milestones as per Business plans, leasing out of 50% of area of upcoming tower in 12 months etc. Company's ability to achieve these targets in light of present nascent stage of project remains to be seen.

<u>Rating Sensitivities</u>

Positive Factors

- Recovery of majority of the advances from VEPL
- Leasing of at least 90% of total leasable area (existing plus upcoming) at rentals not less than Rs. 70/sft/month within 2 years of raising of NCDs.

Negative Factors

- Further increase in exposure to VEPL than what is projected to be extended out of proposed NCD issue
- Delay in leasing of upcoming commercial space or reduction in hotel's Revpar

Detailed description of the key rating drivers

Key Rating Strengths

Presence of escrow account: The Company has opened separate escrow accounts viz. 'Hotel Escrow Account' and 'LRD Escrow Account' for routing of cashflows from hotel and techpark respectively. Company has also maintained DSRA of 2 months of interest and principal. Further, the company has executed Power of attorney favoring the lenders authorizing the bank to recover the rentals directly from lessees and re-lease the property in case of payment default.

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

Good revenue visibility from Tech-Park due to low vacancy levels: Tech-Park is fully occupied with reputed companies as lessees and with lease rental operations providing satisfactory revenue visibility. Almost all the lessee companies are renowned MNCs engaged in developing/ providing IT, ITes. The leases are backed by registered lease deeds with lease period ranging from 3-5 years with mandatory/ optional renewal for further 3-5 years after the expiry of current lease. All the lease agreements include a notice period of 6-12 months, which ensures that the company has adequate time to rope in new tenants in case of withdrawals of the existing clients.

Consistent performance of the hotel: Revenue from hotel division (named as 'Ottera') has seen consistent improvement over the last 4 years with Rs. 59.2 crore in FY15 and to Rs. 71.1 crore in FY18 though it slightly reduced to Rs. 69.3 crore in FY19 with a RevPar of Rs. 3,748 in FY19 (FY18: Rs. 4,013) due to non-renewal of contract with Intercontinental Hotels group (IHG) which affected the occupancy of the hotel. In 9MFY20, however, hotel's RevPar improved to Rs. 3,994 as against Rs. 3,434 during the same period last financial year. The company saves on management fees due to discontinuation of contract with IHG which helped maintain PBDIT margins at 46.60% in 9MFY20 and 43.90% in FY19 (PY: 43.6%).

Key Rating Weaknesses

High exposure to group company: VISL has invested Rs. 400.81 crore (FY18: Rs. 356 crore) in FY19 in VEPL which was almost 2.8x its networth as on that date. The exposure further increased to Rs. 429.31 crore as on December 31, 2019.
VEPL has a automated facility to produce electronic devices and commenced operations from Mar 11, 2016. Company's inability to market its product and ramp up the production levels led to VEPL incurring continuous losses and therefore additional support from VISL. VEPL has incurred net loss of Rs.66.1 cr in both FY19 as against Rs.65.9 crore in FY18. Lack of recovery in the performance of VEPL necessitating further support than envisaged weighed negatively on the credit profile of VISL.

High execution risk associated with upcoming commercial space: Company is planning to construct a commercial space of leasable area of 1.5 msf at existing premises. The same would be funded partly with the amount raised from proposed Non-Convertible Debentures of Rs. 1000 crore and rest from internal accruals. The building will be constructed using pre-cast technology for which the company is putting up its own pre-cast plant. Coupon rate of 0.1% p.a. for 1st 18 months is expected to help company in utilization of internal generation towards project expenses and also time to company to scout for prospective tenants. The company has already entered into LOI with one of its existing client leading to an occupancy 19.87%. Timely construction and leasing out of the space is critical for company's prospects.

Refinancing risk associated with the proposed NCD:
NCD of Rs. 1000 crore proposed to be raised by VISL is for tenor of 3 years which it is planning to refinance the same with LRD. Further, the company would also be required to pay IRR of around 23% to the investor. Company's ability to timely lease out the property at remunerative rentals is key to refinancing the NCD.

Inherent renewal risk of lease agreements: The lease rentals are generally signed for 5-10 years which is shorter than the loan tenor of 12-13 years which poses renewal risk of lease agreements. Further, any lessee can vacate the premises though sufficient notice period of 6-12 months is to be served. However, the rentals are in line with other tech parks of Electronic City which reduces the possibility of contract termination by clients.

Cyclical nature of hotel industry: The industry is driven by macroeconomic factors like the prospects of the Indian tourism industry (which, in turn, is dependent on the overall economy and disposable incomes), competitiveness of Indian tourism, business and leisure travel, foreign tourist arrivals (FTAs), popularizing trend of meetings, incentives, conferences, and exhibitions (MICE). The hotel industry is cyclical in nature as the demand for hotel rooms varies with the business cycle.

<u>Liquidity: Adequate</u>
Liquidity is adequate with rental income being deposited in the account by 7-10th of each month while repayments are being done on last day of each month. As on Dec'19, the cash balance was Rs. 3.90 crore and liquidity is further supported by creation of DSRA of 2 months of Rs. 13.18 crore. Going forward, company's liquidity will be determined by its ability to tie up the upcoming space as envisaged rentals and timelines. Further, further support than projected to the group company is likely to deteriorate VISL's liquidity profile and would be a key rating monitorable.

Analytical approach: Standalone
Applicable Criteria
Criteria on assigning Outlook to Credit Rating
CARE's default recognition policy
Financial ratios - Non Financial Sector

Rating methodology for debt backed by lease rentals
CARE's methodology on Hotel
Criteria on assignment of Provisional Ratings

About the Company

Velankani Information Systems Limited (VISL), erstwhile Velankani Information Systems Pvt. Ltd., is promoted by Mr. Kiron D Shah and Velankani Mauritius Limited (VML) in May 1999. VML is an investment vehicle having 99.70% of holding in VISL (0.30% is held by Mr Kiron Shah and others). VISL has developed two technology parks, one each in Bangalore and Chennai. The tech park at Bangalore (BTP) with a leasable area of 8.16 lsf is operational since December 2006. The tech park at Chennai with a leasable area of 20,000 sft is operational since December 2007 but it has been unoccupied since Jul'11. The company also owns a five star hotel named "Ottera" consisting of 264 rooms located in Electronics City, Bengaluru.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	143.27	134.81
PBILDT	98.31	87.81
PAT	22.09	12.89
Overall gearing (times)	3.42	3.13
Interest coverage (times)	1.41	1.74

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	-	143.42	CARE BBB-; Stable
Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	-	-	-	-	291.56	CARE BBB-; Stable
Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	-	-	-	-	0.00	Withdrawn
Debentures-Non Convertible Debentures- Proposed	-	-	-	-	1000.00	Provisional CARE BB+; Stable

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.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (12-Jan-18) 2)CARE AA (SO); Stable (05-Oct-17)	1)CARE AA (SO) (28-Sep-16) 2)CARE AA (SO) (01-Sep-16) 3)Provisional CARE AA (SO) (03-Aug-16)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (12-Jan-18) 2)CARE A- (SO); Stable (05-Oct-17)	1)CARE A- (SO) (28-Sep-16) 2)CARE A- (SO) (01-Sep-16) 3)Provisional CARE A- (SO) (03-Aug-16)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (12-Jan-18) 2)CARE BBB; Stable (05-Oct-17)	1)CARE BBB (28-Sep-16) 2)CARE BBB (01-Sep-16) 3)Provisional CARE BBB (03-Aug-16)
4.	Fund-based - LT-Term Loan	LT	143.42	CARE BBB-; Stable	-	1)CARE BBB (SO); Stable (19-Mar-19)	1)CARE BBB (SO); Stable (17-Jan-18)	-
5.	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	291.56	CARE BBB-; Stable	-	1)CARE BBB (SO); Stable (19-Mar-19)	1)CARE BBB (SO); Stable (17-Jan-18)	-
6.	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	-	-	-	1)Provisional CARE BBB (SO); Stable (19-Mar-19)	-	-
7.	Debentures-Non Convertible Debentures-Proposed	LT	1000.00	Provisional CARE BB+; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
LRD/TL	• TD to TNW <=3.25x in FY19 and <=3x from FY20 onwards • DSCR>=1.25x

Proposed NCD	The Issuer shall comply with the following indicative financial covenants:
	• 1.5x asset cover, tested on 15th month of Series A disbursement and quarterly thereafter. In addition, can be tested anytime at discretion of debenture holder.
	• Minimum recurring EBITDA of Rs.80Cr from existing Tech Park and Hotel. (Monitored and Tested on monthly basis based on Monthly EBITDA)
	• No further funding to be done from Issuer to any subsidiary including Velankani Electronics Pvt Ltd ("VEPL") apart from agreed funding and transactions In addition, no borrowing or liability can be created in any subsidiary including VEPL
	• No other debt (beside this debenture) or financial liability (except as explicitly disclosed and agreed)
	• No transactions with promoter or related parties except as explicitly disclosed and agreed
	• No dividend or any direct or indirect payment to promoter or related parties (except as explicitly disclosed and agreed)
	• Lease rental for the Proposed Tower Building to be a minimum of INR Rs. 70/- per sqft per month on leasable area.
	• Construction milestones as per the Business Plan.
	• Investor shall have the right to appoint marketing/leasing partner at the cost of the Issuer and take necessary steps to ensure such area is leased in case of binding Letter Of Intent /Memorandum of Understanding/Agreement to Lease/Lease Agreement to lease for at least 50% of leasable area of the Proposed Tower Building is not tied up within 12 months from date of Series A disbursement
	• Leasing of
	  • 20% of Proposed Tower Building by end of 6 months from first disbursement date (excluding Viteos)
	  • 50% of Proposed Tower Building by end of 12 months from first disbursement date
	  • 70% of Proposed Tower Building by end of 15 months from the first disbursement date

B. Non-financial covenants	
LRD/TL	The borrower shall not: • Sell, transfer or otherwise dispose of the property or any part of thereof, without prior written approval • Enter into any amalgamation, demerger, merger or reconstruction • Amend or modify any of its constitutional documents which have material adverse effect.
Proposed NCD	• The Issuer shall not pass any resolution for winding up or make any application for winding up or accept or concur with winding up application filed by any third person, shareholder etc against the Issuer. • The Issuer shall obtain & maintain in full force all the necessary statutory and non-statutory clearances and approvals required for carrying out its business, for the proposed funding, creation and perfection of security.

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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