Velankani Information Systems Ltd

May 22. 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities-Term Loan	151.50	CARE BBB- (Triple B Minus) ; Under credit watch with negative implications	Placed under credit watch with negative implications
Long term Bank Facilities-LRD	283.48	CARE BBB-; (Triple B Minus); under credit watch with negative implications	Placed under credit watch with negative implications
Proposed Non-Convertible Debentures	1000	Provisional CARE BB+ (Provisional Double B Plus), under credit watch with negative implications	Placed under credit watch with negative implications
Total Facilities	1434.98 (Rs. One thousand four hundred thirty four crore and ninety eight lakh only)		

Details of instruments/facilities in Annexure-1.|
#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 rating of Velankani Information Systems Ltd (VISL) is placed under 'Credit watch with negative implications' reflecting the urgent action required from promoters to arrive at a resolution with lenders on moratorium on its debt obligations and restore liquidity either with fresh equity and/or tie-up of additional bank finance in a timely manner, which otherwise could heighten the liquidity risk.

Company's hospitality business performance is impacted on account of severe drop in foreign and domestic travel due to Covid-19 outbreak and the containment measures introduced to contain the spread. This resulted in significant shrinking of occupancy levels and cash flows have been impacted since March 2020 and are expected to continue to be weak in FY21 which may result in cash flow mismatch and impact the liquidity position of the company.

The company has applied for moratorium for three months i.e. from March to May 2020 under RBI's Covid-19 regulatory package for which lenders of Techpark division has denied moratorium on grounds that lease rentals are continued to be received by company while lender of Hotel division is still perusing it. It may be mentioned that VISL has maintained DSRA to cover 2 months of debt repayments. Though the company has appealed against the EMI collection from lender and has also requested lenders for additional funding, failure to arrive at a resolution could compound the liquidity risk.

CARE will resolve the watch once clarity emerges on resolution of the ongoing moratorium issue with lender. CARE will continue to engage with company's management to assess the impact of prolonged disruption of hotel operations on its liquidity profile.

The rating continues to positively factor in favorable location of the property which has resulted in almost full occupancy levels at IT Park at competitive rentals and past consistent operational performance of hotel division.

However, the ratings are constrained increasing exposure in the form of loans and advances to its wholly owned loss making subsidiary, Velankani Electronics P Ltd (VEPL), cyclical nature of the hotel industry, by inherent renewal risk of lease agreements.

The Company is planning to raise funds in the form of NCDs to the extent of Rs 1000 crs. The proceeds of NCDs will be utilized to repay the existing debt, and balance to the fund construction of the proposed multi storey building and identified payables including its subsidiaries. However the proposed NCDs is subject to review of Covid -19 impact assessment and the internal approvals by the prospective lenders. The rating of NCDs are also constrained by high execution risk associated with the upcoming 1.5msf of commercial space in the existing premises and 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 the present nascent stage of project remains to be seen.

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

Rating Sensitivities

Positive Factors

- Substantial improvement in revpar of the hotel and being able to continue to receive rentals from Lessees of LRD property at the existing occupancy levels
- 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

- Continuing muted performance of hotel division
- Decline in occupancy levels or tying up of new leases at lower rentals
- 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

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.

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 with additional renewal option. 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.
The company has received rentals from tenants including from Deutsche Bank Operations International (DBOI) which pays entire annual rent in the month of May as it happens usually.

Past Consistent performance of the hotel: Revenue from hotel division (named as 'The Oterra') 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 due to non-renewal of contract with Intercontinental Hotels group (IHG) which affected occupancy of the hotel. In 11MFY20, the hotel's gross revenue stood at Rs. 70 cr (average of Rs. 5.83 cr/month) but was dropped significantly to Rs. 2.6 cr and Rs. 0.9 cr in Mar'20 and Apr'20 respectively due to decline in occupancy level on account of Covid-19. Company's ability to restore RevPar at pre-pandemic levels will be key to its prospects.

Key Rating Weaknesses

High exposure to group company: VISL has invested Rs. 402.1 crore (Mar'18: Rs. 358.4 crore) as on Mar'19 in VEPL which was almost 2.8x its networth as on that date. The exposure further increased to Rs. 434.8 crore as on December 31, 2019.
VEPL has an automated facility to produce electronic devices and commenced operations from Mar 11, 2016. Later in Jul'19, company has also ventured into MSO (Multiple System Operator) business. Due to various reasons including change in regulatory environment led 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: Due diligence process for the proposed to be raised NCD of Rs. 1000 cr for a tenor of 3 years (planning to refinance the same with LRD later on) was completed by the probable subscriber before lockdown and sanction is likely to happen post lock down. However the proposed NCD is subject to review of Covid -19 impact assessment and the internal approvals by the prospective lenders. 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.

Unfavorable industry scenario amid Covid-19: The Hospitality sector was significantly affected by the mandatory closure of the Hotels across the states. Minimal cash flow is expected for many quarters over FY20-21 for key segments like international inbound and outbound travel. The government has not included the sector for assistance in the Rs 20 lakh crore Atmanirbhar Bharat Abhiyan package despite the industry being a critical contributor to the country's GDP and foreign exchange earnings.
Cost cutting measures by VISL
As per the management, at the current occupancy levels, hotel revenues are just enough to cover associated fixed expenses. Company has negotiated with its Annual maintenance contractors and other creditors for reduction and deferral of payments to the extent of 30-40%. Post other cost rationalisation efforts, fixed costs outflow could be around Rs. 1.1 crore/ month currently as against the current hotel revenue of Rs. 0.9 crore/ month.

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.

Liquidity: Stretched
VISL has cash and bank balance of Rs. 3.15cr and DSRA of Rs.7.62 cr. (DSRA of Rs. 3.5 crore with the lender of hotel division which is sufficient for 2 months of debt repayments). Company has been receiving rents from tenants of techpark which provides steady state source of revenue and is being adjusted against LRD repayments as the lenders have declined the moratorium. On the other hand, company's hotel division revenues have been impacted severely due to lock down and is expected to remain muted in near term which will significantly impact its cashflow. Promoter's effort to restore liquidity either with fresh equity and/or tie-up of additional bank finance in a timely manner is critical. The company's liquidity will also be determined by its ability to tie up the upcoming space as envisaged rentals and timelines. 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 and current leasable area is 7.87 lsf after demolition of a building. 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 "The Oterra" consisting of 282 rooms (operational: 267 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	-	-	-	Dec 2031	151.50 @	CARE BBB- (Under Credit watch with Negative Implications)
Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	-	-	-	Dec 2031	283.48	CARE BBB- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures- Proposed	-	-	-	-	1000.00	Provisional CARE BB+ (Under Credit watch with Negative Implications)

@O/s of Rs. 158.10 crore

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (12-Jan-18) 2)CARE AA (SO); Stable (05-Oct-17)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (12-Jan-18) 2)CARE A- (SO); Stable (05-Oct-17)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (12-Jan-18) 2)CARE BBB; Stable (05-Oct-17)
4.	Fund-based - LT-Term Loan	LT	151.50@	CARE BBB- (Under Credit watch with Negative Implications)	-	1)CARE BBB-; Stable (16-Mar-20)	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	283.48	CARE BBB- (Under Credit watch with Negative Implications)	-	1)CARE BBB-; Stable (16-Mar-20)	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)Withdrawn (16-Mar-20)	1)Provisional CARE BBB (SO); Stable (19-Mar-19)	-
7.	Debentures-Non Convertible Debentures	LT	1000.00	Provisional CARE BB+ (Under Credit watch with Negative Implications)	-	1)Provisional CARE BB+; Stable (16-Mar-20)	-	-

@O/s of Rs. 158.10 crore

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
	    • 35% of Proposed Tower Building by end of 8 months from first disbursement date
	    • 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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