Velankani Information Systems Ltd

December 24, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	434.98	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BBB- (Triple B Minus) and removed from Under Credit watch with Negative Implications; Stable outlook assigned
Total Bank Facilities	**434.98 (Rs. Four Hundred Thirty-Four Crore and Ninety-Eight Lakhs Only)**		
Non Convertible Debentures	-	-	Revised from Provisional CARE BB+ (Provisional Double B Plus) to Provisional CARE BB: Stable (Provisional Double B; Outlook: Stable) and removed from Credit watch with Negative Implications; Stable outlook assigned and simultaneously Withdrawn@

Details of instruments/facilities in Annexure-1
@ The rating assigned was Provisional and the Company has requested CARE to withdraw the rating as it does not plan to raise the proposed NCD.

Detailed Rationale & Key Rating Drivers

The ratings of various facilities and instruments were earlier placed under credit watch with negative implications as the lenders did not grant moratorium to Velankani Information Systems Limited (VISL) and insufficient cash accruals from the hotel operations for timely debt repayments of hotel debt even though the IT park rental revenues were intact. The Company had appealed against the EMI collection from lender and had approached the Honourable High Court of Karnataka against the lenders' decision not to grant moratorium. The Court vide its order dated July 8, 2020 has directed the term loan lenders of the Company to grant a moratorium period of 6 months on all the payments in terms of the RBI Circular on Covid-19 Regulatory package. Accordingly, the rating has been removed from credit watch with negative implications. However, the performance of the hotel asset continues to remain weak which has been impacted on account of severe drop in foreign and domestic travel due to Covid19 outbreak and are expected to continue to be weak in FY21. Even though there is improvement in revenues of the asset but is still well below the pre-Covid levels. Company is taking several steps to improve the revenues/ profitability further including tying up of room nights with various corporates, but its ability to reach at pre-Covid levels sooner remains to be seen.

Company had applied for sanction of additional debt from existing lenders to service hotel debt obligations which has taken longer than envisaged time for sanction and disbursement by existing lenders which has further weakened the company's liquidity position and hence revision in rating. As such, company has been maintaining DSRA of Rs. 7.65 crore with lenders.

CARE also takes note of delays reported in the audit report of company's FY20 annual report though sufficient DSRA was in place with lenders who have not dipped into it.

The ratings are also constrained due to high exposure in the form of loans and advances/ investments in its wholly owned loss making subsidiary, Velankani Electronics P Ltd (VEPL), cyclical nature of the hotel industry, inherent renewal risk of lease agreements. The Company was planning to raise funds in the form of NCDs to the extent of Rs 1000 crs, the proceeds of which were expected to be utilized to repay the existing debt and balance to the fund construction of the proposed multi-storey building and identified payables including of its subsidiaries. However, the plan has been put on hold in the wake of Covid pandemic and VISL has requested CARE to withdraw the rating since it has not raised the amount. Consequently, rating has been withdrawn.

On the positive front, 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.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- 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- Factors that could lead to negative rating action/downgrade:

- Continuing muted performance of hotel division resulting in tight liquidity position
- Tying up of new leases at lower rentals in case of vacancy
- 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 Weaknesses

High exposure to group company: VISL has invested Rs. 439.17 crore (includes Rs. 44.74 cr of capital advance) as on Mar'20 as against Rs. 402.1 crore Mar'19 which was almost 2.63x its networth as on that date. 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. VEPL has recently received new orders from two parties and VISL is expecting that VEPL will become financially independent by next financial year but ability of VEPL to turnaround its performance on a sustained basis remains to be seen.

Prolonged time taken for hotel division to improve to pre-Covid levels: Hotel occupancy and revenue of company has been significantly impacted due to Covid-19. Even though the hotel occupancy has improved to 11.3% (pre Covid-56%-60%) with total revenue earned of Rs. 1.2 crore in the month of Nov'20 (Pre-Covid- ~Rs. 6cr/ month) , it is still below the pre-Covid levels. For 8MFY21, total revenue of Rs. 5.3 cr (PY: Rs. 46.5 cr) has been registered with Gross operating loss of Rs. 2.6cr (Gross operating profit of Rs. 20.2 cr). While the recent additional sanction received from the lenders may help the company in managing hotel cashfow for short term, continuing low occupancy levels at hotel may affect the overall VISL's credit profile. Though the company is taking steps to address the issue by entering into contracts with corporates, its ability to quickly turnaround the performance remains to be seen.

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.

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.

Liquidity: Stretched

Company has been receiving rents from tenants of techpark which provides steady state source of revenue and is being adjusted against LRD repayments. 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. As per mutual fund statement shared by the client, it has maintained DSRA of Rs. 7.65 crore as on December 15, 2020 which would be sufficient enough to make debt repayments in near term but longer than envisaged time in turnaround in hotel's operations is critical.

Promoter's effort to restore liquidity with fresh equity as and when required in a timely manner is essential. 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.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	134.81	149.91
PBILDT	87.81	87.19
PAT	12.89	23.29
Overall gearing (times)	3.13	2.66
Interest coverage (times)	1.74	1.62

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
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

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 BB+; Stable
Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	-	-	-	Dec 2031	283.48	CARE BB+; Stable
Debentures-Non Convertible Debentures	-	-	-	-	-	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 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 BB+; Stable	1)CARE BBB- (Under Credit watch with Negative Implications) (22-May-20)	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 BB+; Stable	1)CARE BBB- (Under Credit watch with Negative Implications) (22-May-20)	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	-	-	1)Provisional CARE BB+ (Under Credit watch with Negative Implications) (22-May-20)	1)Provisional CARE BB+; Stable (16-Mar-20)	-	-

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
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.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	Simple
3.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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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.

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