

Vikran Engineering & Exim Private Limited

January 06, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	50.00	CARE BBB; Positive [Triple B; Outlook: Positive]	Revised from CARE BBB; Stable [Triple B; Outlook : Stable]
Short-term Bank Facilities	10.00	CARE A3 [A Three]	Reaffirmed
Long-term/ Short-term Bank Facilities	140.00	CARE BBB; Positive / CARE A3 [Triple B; Outlook: Positive/ A Three]	Revised from CARE BBB; Stable / CARE A3 [Triple B; Outlook : Stable / A Three]
Total Facilities	200.00 [Rupees Two Hundred crore only]		
Proposed Non-Convertible Debenture (NCD) Issue	-	-	*Withdrawn

Details of instrument/facilities in Annexure-1

**The ratings of the proposed NCD issue was withdrawn on the request of the company as it was not placed and as such there was no amount outstanding against this instrument*

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of Vikran Engineering and Exim Private Limited (VEEPL) continue to derive strength from the rich experience of its promoters in power transmission and distribution (T&D) infrastructure industry, significant growth in VEEPL's scale of operations during FY19 (FY refers to the period April 1 to March 31) & 9MFY20, albeit on a moderate base while maintaining stable profitability margin, moderate revenue visibility with low counter party credit risk, presence of price escalation clause in its order book and stable demand outlook for power T&D industry.

The ratings, however, continue to be constrained on account of relatively short track record of its operations, geographically concentrated operations, moderation in its leverage upon availment of incremental working capital borrowings to support the growth in its scale of operations, moderation in its debt coverage indicators and elongation in its operating cycle.

Outlook: Positive

The 'positive' outlook on the rating reflects CARE's expectation of improvement in VEEPL's financial risk profile with further growth in its scale of operations, improvement in its profitability margins along with adequate liquidity position. The outlook on the rating may be revised to 'Stable' if the company is unable to ramp up its scale of operations and improve its profitability as envisaged.

Key Rating Sensitivities**Positive Factors**

- Improvement in overall gearing along with better liquidity cushion in its working capital limit utilization
- Improvement in PBILDT margin beyond 14% on a sustained basis
- Greater geographical diversification of its operations leading to reduced dependence on one state
- Timely execution of its existing orders along with procurement of new orders to further improve revenue visibility
- Effective management of its working capital requirement resulting in improvement in its operating cycle to less than 60 days even with growth in its scale of operations.

Negative Factors

- Inordinate delay in order execution which could impact its revenue and lead to stretch in its operating cycle beyond 80 days
- Moderation in overall gearing beyond 2 times
- Inordinate delay in realization of its debtors' exceeding 120 days

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

- Decline in order book from the existing level lowering its revenue visibility

Detailed description of the key rating drivers

Key Rating Strengths

Rich experience of promoters in power T&D industry

VEEPL is promoted by Mr Rakesh Markhedkar, who has over two decades of experience in the power transmission and distribution segment and has handled various assignments in leadership positions across various reputed companies. He has also been bestowed with many prestigious awards in the power sector. He is assisted by his family members and a team of qualified professionals in handling the day-to-day operations of the company.

Healthy order book with low counter party credit risk and presence of price escalation clause

VEEPL's order book remains healthy with Rs.664 crore of orders on hand as on Dec. 31, 2019 (around 2.27x FY19 TOI) vis-à-vis Rs.561 crore as on August 01, 2018 (around 3x FY18 TOI). The present orders are to be executed over a period of twelve to eighteen months and thus provide medium-term revenue visibility.

VEEPL's current order book consists of orders from various government-owned power T&D companies of Madhya Pradesh, Maharashtra and Bihar which are funded by reputed T&D infrastructure implementing agencies having sound credit profile, thus largely mitigating the counter party credit risk. All the orders are to be executed in a short to medium tenure and are backed by price variation clause thus largely insulate the company from any adverse raw material price movement.

Growing scale of operations along-with moderate profitability

During FY19, VEEPL's TOI grew significantly by 55% y-o-y to ~Rs.292 crore owing to timely execution of the orders on hand, albeit the scale of operations continued to remain at a moderate level. The PBILDT and PAT margins remained moderate at 10.76% and 5.01% respectively during FY19 (8.68% and 4.11% during FY18). Further, VEEPL has reported TOI of Rs.300.60 crore with improved PBILDT margin of 16.66% during 9MFY20 mainly on account of better execution of orders in hand, upward price revision in few of its on-going orders and decline in raw material prices.

Stable demand outlook for power T&D industry

Looking at the government's continued focus towards connecting every rural household for ensuring un-interrupted power supply through various schemes such as Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) and Pradhan Mantri Sahaj Bijli Har Ghar Yojana (Saubhagya), the transmission & distribution industry is expecting many new projects, necessitating erection of thousands of kilometres of new transmission lines and construction of hundreds of new substations. The EPC players in this segment are envisaged to benefit from such rise in demand for new transmission infrastructure. However, execution challenges such as timely availability of necessary right of way (RoW) and weak financial health of discoms (wherever they are the counterparties) remain the key bottlenecks for the industry.

Key Rating Weaknesses

Relatively short track record of operations along-with geographical concentration of its operations

VEEPL started receiving engineering, procurement and construction (EPC) orders in power T&D sector from February 2016 and thus has a limited track record of order execution of over three years in this segment. Nevertheless, VEEPL has increased its scale of operations significantly during this period, marked by TOI of ~Rs.292 crore during FY19 and ~Rs.301 crore during 9MFY20, primarily aided by the vast experience of its key promoter. Further, majority of executed orders of VEEPL pertain to only two states viz. Bihar & Madhya Pradesh (MP). Also, its outstanding order book is spread across three states viz. Bihar, MP and Maharashtra leading to geographical concentration of its operations. VEEPL did encounter some execution challenges in the states of Bihar & MP during H1FY20 mainly due to heavy rains in those regions, however, the same picked-up during Q3FY20.

Moderation in overall gearing and debt coverage indicators

With the growth in its scale of operations, VEEPL's reliance on working capital borrowings, mobilisation advances and LC backed creditors has also gone up significantly leading to moderation in its overall gearing from 0.94 times as on March 31, 2018 to 1.66 times as on March 31, 2019. Also, its debt coverage indicators marked by Total debt/GCA moderated to 6.00x in FY19 (4.65x in FY18).

Liquidity: Adequate

VEEPL's liquidity profile is adequate, characterized by negligible long term debt repayment obligations along with Rs.16.11 crore of free cash & liquid investments available as on March 31, 2019. However, VEEPL's operations have high working capital intensity primarily due to funding requirement for debtors, retention money and margin money towards

various orders. The operating cycle of VEEPL moderated to 64 days in FY19 from 47 days in FY18 with a high collection period of over 114 days. VEEPL has sanctioned fund based working capital limits of Rs.50 crore and has availed an ad-hoc limit of Rs.7 crore from October 2019. Average utilization of its fund based working capital limits stood at ~80% with maximum utilization going up to high level of 96% during the trailing 12 months ended November 2019. VEEPL has sanctioned non-fund based working capital limit of Rs.140 crore whereby average utilization stood at ~64% for the last 12 months ended Sept. 2019.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology- Construction Sector](#)

[Financial Ratios – Non-Financial Sector](#)

[Policy on Withdrawal of Ratings](#)

About the Company

VEEPL, erstwhile Ratnagiri Financial Advisory Pvt. Ltd., was incorporated in 2008. Mr. Rakesh Markhedkar and his family acquired the company in November 2014 and rechristened it as VEEPL. The company is presently engaged in execution of power transmission and distribution segment orders on EPC basis.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	188.45	291.93
PBILDT	16.35	31.40
PAT	7.75	14.63
Overall gearing (times)	0.94	1.66
Interest coverage (times)	3.37	3.42

A: Audited

As per 9MFY20 (Prov.) results, VEEPL has reported a TOI of Rs.300.60 crore with a PAT of Rs.31.05 crore.

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 Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-Bank Guarantees	NA	NA	NA	140.00	CARE BBB; Positive / CARE A3
Fund-based - LT-Cash Credit	NA	NA	NA	50.00	CARE BBB; Positive
Non-fund-based - ST-Letter of credit	NA	NA	NA	10.00	CARE A3
Debentures-Non Convertible Debentures	-	-	-	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 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.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	140.00	CARE BBB; Positive / CARE A3	-	1)CARE BBB; Stable / CARE A3 (07-Sep-18) 2)CARE BBB; Stable / CARE A3 (06-Apr-18)	-	1)CARE BBB-; Stable / CARE A3 (08-Mar-17)
2.	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB; Positive	-	1)CARE BBB; Stable (07-Sep-18) 2)CARE BBB; Stable (06-Apr-18)	-	1)CARE BBB-; Stable (08-Mar-17)
3.	Non-fund-based - ST-Letter of credit	ST	10.00	CARE A3	-	1)CARE A3 (07-Sep-18) 2)CARE A3 (06-Apr-18)	-	1)CARE A3 (08-Mar-17)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE BBB; Stable (07-Sep-18)	-	-

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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