

Vikran Engineering and Exim Private Limited

December 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	80.00 (Enhanced from 50.00)	CARE BBB; Stable [Triple B; Outlook: Stable]	Reaffirmed; Outlook revised from Positive
Long-term/ Short-term Bank Facilities	200.00 (Enhanced from 140.00)	CARE BBB; Stable / CARE A3 [Triple B; Outlook: Stable / A Three]	Reaffirmed; Outlook revised from Positive
Short-term Bank Facilities	20.00 (Enhanced from 10.00)	CARE A3 [A Three]	Reaffirmed
Total Facilities	300.00 [Rs. Three Hundred Crore Only]		

Details of facilities in Annexure-1
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, growth in VEEPL's scale of operations over a short span of time albeit on a moderate base, its moderate revenue visibility, presence of price escalation clause in part of 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, exposure to weak counter-parties, large working capital requirements, along with its moderate leverage & debt coverage indicators. CARE also takes cognizance of VEEPL availing the moratorium granted by its lenders as a COVID relief measure (as permitted by the Reserve Bank of India) on interest payment of working capital facilities from March 1, 2020 till August 31, 2020.

Outlook: Stable

The revision in the outlook assigned to the long-term rating of the bank facilities of VEEPL from 'Positive' to 'Stable' factors inability of VEEPL to significantly ramp up its scale of operations and profitability during FY20 (FY refers to the period from April 1 to March 31) in line with its previous estimates. It also factors likely inability of VEEPL to significantly grow its scale of operations and profitability during FY21 on the back of Covid-19 pandemic induced disturbances in execution of its outstanding orders which is also reflected in its lower TOI and profitability in H1FY21.

Rating Sensitivities**Positive Factors**

- Improvement in overall gearing along with better liquidity cushion in its working capital limit utilization
- Improvement in PBILDT margin beyond 11% on a sustained basis
- Greater geographical diversification of its operations leading to reduced dependence on 2-3 states
- 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
- Decline in order book from the existing level lowering its revenue visibility
- Any adverse outcome in its disputed input GST credit matter impacting the liquidity of the company

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

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 three 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.

Moderate order book with presence of price escalation clause in half of its order book

VEEPL's order book remains moderate with Rs.714 crore of orders on hand as on Nov. 30, 2020 (around 1.62x FY20 TOI) vis-à-vis Rs.664 crore as on Dec. 31, 2019 (around 2.27x FY19 TOI). The present orders are to be executed over a period of twelve to eighteen months and thus provide near-term revenue visibility. All the orders are to be executed in a short to medium tenure and roughly half of them are backed by price variation clause thus insulating company's profit margins from any sharp adverse raw material price movement to some extent.

Growth in scale of operations along-with improved operating profitability in FY20; albeit growth in TOI was lower than envisaged

Scale of operations of VEEPL has grown in a very short span of time since it commenced its operations in FY17 albeit on a moderate base. During FY20, VEEPL's TOI grew by ~51% y-o-y to ~Rs.440 crore compared to Rs.292 crore in FY19 owing to timely execution of the orders on hand. However, the growth in its TOI was lower than previously envisaged. Also, its operating profitability marked by PBILDT margin improved from 10.76% during FY19 to 15.28% during FY20.

Stable long-term 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, the sector has faced challenges owing to suspension of construction activities due to spread of COVID-19 pandemic along with reverse migration of labour, further due to uncertainty about resurgence of Covid pandemic the demand outlook remains negative in short term for construction sector.

Liquidity: Adequate

VEEPL's liquidity profile is adequate, characterized by negligible long term debt repayment obligations along with Rs.10.21 crore of free cash & liquid investments available as on March 31, 2020. 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 70 days in FY20 from 64 days in FY19 with a high collection period of over 115 days. Average utilization of its fund based working capital limits stood at ~81% with maximum utilization going up to high level of 99% during the trailing 12 months ended November 2020. The average utilization of non-fund based working capital limits also remained high at ~85% for trailing twelve month ended Nov. 2020. However, in order to meet its working capital requirement, it has got its both fund based & non-fund based working capital limits enhanced from its lenders. On the back of Covid 19 pandemic wherein execution of orders had been impacted during H1FY21, VEEPL had availed the moratorium from its lenders as a COVID relief measure (as permitted by the Reserve Bank of India) on interest payment of working capital facilities from March 1, 2020 till August 31, 2020.

Key Rating Weaknesses

Relatively short track record of operations 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 four years in this segment. Nevertheless, VEEPL has increased its scale of operations significantly during this period, marked by TOI of ~Rs.440 crore during FY20 primarily aided by the vast experience of its key promoter. Over a period of time VEEPL has expanded its operations to nearly 7 states, however, out of its total order book on Nov. 30, 2020, 3 key states of Bihar, Rajasthan and Maharashtra constitutes ~73% of the pending order value reflecting geographical concentration of its operations.

Lower than expected profitability in FY20 and further moderation in H1FY21

TOI of VEEPL improved to Rs.440 crore during FY20 albeit the same was lower than the company's previously articulated estimates mainly due to lower execution of orders in the month of March 2020 due to Covid. Accordingly, its profitability

for FY20 also stood lower than expected. Further, in spite of improvement in its operating profitability, PAT margin remained low at 5.84% during FY20 vis-à-vis 5.01% during FY19 mainly due to reversal of Input GST credit of Rs.13.36 crore pertaining to FY18. Accordingly, there was limited improvement in its cash accruals during FY20. Certain purchase and sales transaction pertaining to FY18 were investigated by DGGI (GST) department during FY20 wherein company has reversed the Input tax credit of Rs.13.36 crore on the purchase transactions and started paying the same in monthly installments.

VEEPL's H1FY21 performance stood significantly on the lower side marked by TOI of Rs.107.42 crore with moderated PBILDT margin of 9.05% mainly due to effect of Covid 19 induced lockdown & heavy monsoon in its areas of operations. However, as the operations of VEEPL are usually skewed towards the second half of financial year, improvement in execution of orders in H2FY21 would be critical.

Moderate capital structure and debt coverage indicators

As VEEPL has been generating good profits y-o-y, the tangible networth of the company has grown, consequently its overall gearing improved to 1.05x as on March 31, 2020 from 1.67x as on March 31, 2019. However, 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 and VEEPL has availed additional Rs.100.00 crore of working capital borrowings during H1FY21, hence the capital structure is expected to again moderate. The company's debt coverage indicators although improved, continued to remain moderate marked by Total debt/GCA of 3.31x and interest coverage of 4.91x in FY20.

Increased exposure to weak counter-parties

Initially, VEEPL was bidding for projects which were being funded from reputed agencies like Asian Development Bank, Power Finance Corporation, Rural Electrification Corporation which used to act as a safeguard on the collections of VEEPL against the weak financial profile of its direct counter parties which are normally state electricity boards. However, now in its outstanding order book of Rs.714 crore on Nov. 30, 2020, only around 33% of the projects are funded by such reputed agencies whereas in balance ~67% of the projects VEEPL is directly exposed to the weak counter parties which could result in potential delay in collection of its debtors going forward.

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](#)

[Liquidity Analysis of Non-financial sector](#)

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

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)	FY19 (A)	FY20 (A)
Total operating income	291.93	440.50
PBILDT	31.40	67.30
PAT	14.63	25.74
Overall gearing (times)	1.67	1.05
Interest coverage (times)	3.42	4.91

A: Audited

As per H1FY21 (Prov.) results, VEEPL has reported a TOI of Rs.107.42 crore with a PBT of Rs.4.30 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	200.00	CARE BBB; Stable / CARE A3
Fund-based - LT-Cash Credit	NA	NA	NA	80.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit	NA	NA	NA	20.00	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 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.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ ST	200.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Positive / CARE A3 (06-Jan-20)	1)CARE BBB; Stable / CARE A3 (07-Sep-18) 2)CARE BBB; Stable / CARE A3 (06-Apr-18)	-
2.	Fund-based - LT-Cash Credit	LT	80.00	CARE BBB; Stable	-	1)CARE BBB; Positive (06-Jan-20)	1)CARE BBB; Stable (07-Sep-18) 2)CARE BBB; Stable (06-Apr-18)	-
3.	Non-fund-based - ST-Letter of credit	ST	20.00	CARE A3	-	1)CARE A3 (06-Jan-20)	1)CARE A3 (07-Sep-18) 2)CARE A3 (06-Apr-18)	-
4.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (06-Jan-20)	1)CARE BBB; Stable (07-Sep-18)	-

Annexure-3: Complexity Level of various facilities rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
3.	Non-fund-based - ST-Letter of credit	Simple

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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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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