

Press Release

Veremax Technologie Services Limited

March 04, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	-	ACUITE A3 Assigned
Bank Loan Ratings	40.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	55.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.55.00 Cr bank facilities of Veremax Technologie Services Limited (VTSL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating takes into account VTSL's moderate business risk profile marked by its experienced promoters, established track record in Southern India, improving scale of operations, continuous improvement in operating income over the past years, strong 9MFY2022 financials on account of increase in orders. The rating also factors in its moderate financial risk profile marked by a moderate network and gearing along with comfortable debt protection metrics. These strengths are partially constrained by its working capital intensive nature of operations, competitive environment in the industry, high concentration of revenue from single customer, inherent risk of susceptibility in raw material (consumables) prices and regulatory risk.

About the Company

Established in 2013 and based in Chennai (Tamil Nadu), Veremax Technologie Services Limited (VTSL) provides end to end telecom service integration, project implementation and maintenance of active equipment for leading telecom operators. VTSL is engaged in services such as Fiber leasing, Tower maintenance and Fiber maintenance, Bandwidth and allied services for leading telecom providers. VTSL is promoted by Mr. Tiruchendur Rajakani Meganathan Venkatesh.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the VTSL to arrive at this rating.

Key Rating Drivers

Strengths

- **Promoters' extensive experience in telecom infrastructure services industry;**
- **Established regional player in South India**

VTSL is promoted by Mr. Venkatesh TRM who has been associated with the company since its inception; this has helped VTSL to establish strong market presence in the state of Kerala, Tamil Nadu and Karnataka. Mr. Venkatesh looks after the day-to-day operations of the company and is assisted by team of experienced professionals down the line. Mr. Venkatesh has nearly 3 decades of experience in telecom infrastructure services industry. The revenue of VTSL has grown at a compound annual growth rate (CAGR) of ~124 per cent for last three years ending FY2021. The operating income has increased to Rs.238.74 Cr in FY2021 from Rs.198.61 Cr in FY2020, further, VTSL has achieved revenue of Rs.223.14 Cr for 9MFY2022. VTSL operates with moderate profitability margins marked by operating margin (EBITDA) of 8.49 percent in FY2021. However, VTSL has reported operating margins of around 19 percent during the period 9MFY2022 on account of increase in realization and price escalation provided by their customers on account of increasing cost. VTSL has an unexecuted order book of Rs.274.38 Cr to be executed in near term. The existing O&M contacts have validity of 2-3 years and often renewed upon expiry. Acuité believes that VTSL will continue to derive benefits from its promoter's experience, its established presence and diversified geographical coverage providing healthy revenue visibility over the medium term.

- **Moderate debt protection metrics and capital structure**

VTSL's financial risk profile is moderate, marked by a modest networth, moderate gearing along with comfortable debt protection metrics. The EBITDA margins of the company marginally improved to 8.49 per cent in FY2021 against 7.65 per cent in FY2020. The improvement is attributable to decrease in site expenses and selling overheads during the period. The EBITDA margins were improved on overall basis despite increase in raw material cost and employee cost. The PAT margins of the company has significantly deteriorated to 0.14 per cent in FY2021 in comparison to 2.51 per cent in FY2020. The PAT margins in FY2021 was deteriorated on account of reporting high depreciation and increase in the finance cost due to additional working capital limits availed during the period. VTSL incur capex towards purchase of certain tools (fixed assets) required for operations every two years as the life-cycle of these tools are very low resulting in depreciation of 45-50 percent every financial year. The net cash accruals (NCA) ratio stood improved at 6.04 per cent in FY2021 against 5.32 per cent in previous year. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 7.50 times and 4.04 times respectively in FY2021 as against 6.66 and 4.36 times respectively in the previous year.

The net worth of the company stood at Rs.16.63 Cr as on 31 March, 2021 as against Rs.11.05 Cr as on 31 March, 2020. The improvement is on account of modest accretion of net profit in the reserves and infusion of equity capital of Rs.5.25 Cr by the promoters during the period. The gearing level (debt-equity) stands marginally improved at 3.49 times as on 31 March, 2021 as against 3.54 times as on 31 March, 2020, the improvement is on account of strengthening of networth despite increase in external borrowings. TOL/TNW (Total outside liabilities/Total net worth) has improved and stands moderate at 5.82 times as on 31 March, 2021 against 6.99 times in previous year. Moderate TOL/TNW is on account of presence of moderate leverage position of the company during the period.

The total debt of Rs.58.02 Cr as on 31 March, 2021 consist of long-term debt of Rs.1.84 Cr, short term debt of Rs.11.64 Cr, unsecured loans from promoters/directors of Rs.11.64 Cr and maturing portion of long term borrowings of Rs.11.01 Cr. The company is moderately aggressive towards its leverage policy. NCA/TD (Net cash accruals to total debt) stands marginally deteriorated at 0.25 times in FY2021 as against 0.27 times in FY2020.

Acuité expects the financial risk profile to remain stable over the medium to long term period on account of moderate capital structure and stable operations of VTSL.

- **VTSL's ability to sustain its revenue and profitability despite the impact of Covid-19 Pandemic**

The operations of VTSL were marginally impacted during the nation-wide lockdown imposed to curb the spread of Covid-19 pandemic and resumed at desirable operations metrics thereafter. VTSL is engaged in the telecom infrastructure services industry. The operating income of the company has improved by nearly 20 percent from Rs.198.61 Cr in FY2020 to Rs.238.74 Cr in FY2021 and Rs.223.14 Cr during the 9MFY2022 (April'21 to December'21). The operations of the company were resilient during the global pandemic on account of spread of Covid-19 pandemic. VTSL was able to record absolute EBITDA of Rs.20.27 Cr in FY2021 against Rs.15.19 Cr in previous year. Acuité expects VTSL to record healthy operating income in current year FY2022 on account of increasing orders and scale of business.

Weaknesses

- **Working capital operations marked by moderate GCA days**

VTSL's working capital cycle is moderately managed as reflected by its moderate GCA days in the range of 131-167 days over the last 3 years ending March 31, 2021. The GCA days of 131 days as of March 31, 2021 are marked by moderate inventory days and debtor days. VTSL had inventory and debtor days of 14 days and 89 days as on March 31, 2021. As per the nature of industry, VTSL receives the amount of work billed from the telecom operators in 60-70 days as many stage wise approval and clearance are required to process the bill and release the amount. Whereas, VTSL has to pay the creditors within 0-45 days. The creditors consist of creditors for consumables, tools, fiber cables, fuel, vehicle hiring, labour and manpower. The moderate GCA cycle coupled with working capital nature of the company has led to high average utilization of fund based bank lines of Rs.55.00 at 87 percent over the past 8 months ending January, 2022. Acuité believes that the operations of VTSL will remain moderately working capital intensive on account of nature of the telecom infrastructure service industry.

- **High concentration from single customer**

Reliance Group (Jio), is one of the major customer of VTSL contributing around 98 percent of total sales. Further, top 10 customers contribute 100 percent of total revenue. Out of the unexecuted work order book of Rs.274.38 Cr, Reliance Projects and Property Management Services Limited contributes to around 87 per cent of total order book leading to high customer concentration on revenue profile. However, strong credit profile of Reliance Group mitigates the risk to an extent. Acuité believes that company's ability to diversify its customer base shall remain key sensitivity.

Rating Sensitivities

Positive

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged
- Sustainable improvement in Leverage and Solvency position of the company.
- Sustainable improvement in Gross current assets (GCA) days.
- Sustainable diversification in customer profile

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company.
- Any significant delays in receivables from customers.

Material covenants

None

Liquidity Position: Adequate

VTSL's liquidity is adequate marked by moderate generation of net cash accruals in FY2021 to its maturing debt obligations and moderate level of unencumbered cash and bank balance. VTSL has generated cash accruals in the range of Rs.2.69-14.41 Cr during last three years ending FY2021 as against its long term debt obligations of Rs.0.63-1.52 Cr for the same period. VTSL's working capital is moderate as evident from Gross Current Asset (GCA) of 131 days as on March, 2021 as compared to 144 days as on March 31, 2020. The current ratio stood at 1.04 times as on March 31, 2021 against 1.38 in previous year. The moderate GCA cycle has led to high utilization of around 87 per cent of working capital requirement bank lines of Rs.55.00 Cr over the past 10 months ending January, 2022. VTSL maintained unencumbered cash and bank balances of Rs.2.67 Cr as on March 31, 2021 against Rs.0.0 Cr in previous year. VTSL has maintained deposits with bank of Rs.0.70 Cr as on March 31, 2021.

Acuité believes that the liquidity of VTSL to remain adequate on account of improving scale of operations and moderate capital structure. VTSL is expected to generate adequate NCAs in the range of Rs.27.60-33.12 Cr. against modest CPLTD of Rs.2.16-11.01 Cr over the medium term.

Outlook: Stable

Acuité believes that VTSL rating will maintain a 'Stable' outlook over the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'Positive' if VTSL registers sustainable improvement in sales, diversification in customer base and location leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case VTSL registers lower-than expected revenues and profitability or any significant stretch in its working capital management or larger than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	238.74	198.61
PAT	Rs. Cr.	0.33	4.99
PAT Margin	(%)	0.14	2.51
Total Debt/Tangible Net Worth	Times	3.49	3.54
PBDIT/Interest	Times	7.50	6.66

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB- Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Shivam Agarwal Analyst-Rating Operations Tel: 022-49294065 shivam.agarwal@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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