

Press Release

Veremax Technologie Services Limited

January 31, 2023



Rating Assigned and Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	45.00	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	40.00	ACUITE BB+ Stable Downgraded	-
Bank Loan Ratings	15.00	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating to '**ACUITE A4+**' (read as **ACUITE A four 'plus'**) from **ACUITE A3**' (read as **ACUITE A three**) on the Rs.55.00 Cr bank facilities and assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE double B 'Plus'**) on the Rs. 45.00 Cr bank facilities of Veremax Technologies Services Limited (VTSL). The outlook is '**Stable**'.

Reason for Rating Downgrade

The rating downgrade is on account of deterioration in the financial risk profile of VTSL marked by increasing gearing, declining debt protection metrics and intensive working capital operations impacting the liquidity profile of the company. The rating continues to derive strength from the promoters' extensive experience in telecom infrastructure services industry and stable operating performance during the review period. The Company's operating income improved to Rs.325.49 Cr in FY22 as against Rs.238.74 Cr in FY21. In 9MFY23 the Company has generated a revenue of Rs.252 Cr. The operating margins recorded an improving trend as it ranged between 7.65 - 9.41 percent for the three years ended FY2022. However, the overall gearing rose to 4.26 times as on March 31, 2022 as against 3.49 times as on March 31, 2021. The interest coverage reduced to 5.30 times in FY2022 as against 7.50 times in FY2021. Going forward, the Company's ability to maintain its scale of operations and profitability while improving its capital structure and restricting the elongation in its working capital cycle will remain a key rating monitorable.

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

Acuité 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 operating income has increased to Rs.325.49 Cr in FY2022 from Rs.238.74 Cr in FY2021, further, VTSL has achieved revenue of Rs.252.39 Cr for 9MFY2023. VTSL operates with moderate profitability margins marked by operating margin (EBITDA) of 9.41 percent in FY2022. VTSL has an unexecuted order book of Rs.367.63 Cr to be executed in near term. The existing O&M contacts have validity of 2-3 years and are 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.

Weaknesses

> Below-average financial risk profile

The financial risk profile of the company is below average with low networth and moderate debt protection metrics. The net worth of the company stood at Rs.21.41 Cr and Rs.16.63 Cr as on March 31, 2022 and 2021 respectively. The improvement is on account of accretion of net profits to reserves. The gearing of the company stood at 4.26 times as on March 31, 2022 against 3.49 times as on March 31, 2021. The deterioration in gearing ratio is on account of increase in working capital limits and unsecured loans from promoter in terms of debt portion. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 5.30 times and 1.56 times as on March 31, 2022 respectively as against 7.50 times and 4.04 times as on March 31, 2021 respectively. TOL/TNW stood at 6.63 times in FY2022 against 5.82 times in FY2021. The Debt to EBITDA of the company stood at 2.96 times as on March 31, 2022 as against 2.86 times as on March 31, 2021.

> Intensive working capital operations

VTSL's working capital cycle is working capital intensive as reflected by its high gross current assets (GCA) days at 159 days as on March 31, 2022 as against 131 days as on March 31, 2021. The GCA days are driven by moderate debtors and other current assets which mainly includes unallocated bandwidth. Unallocated bandwidth refers to unsold buffer bandwidth maintained by the company under contract with its customers to meet any immediate bandwidth requirements. The debtor days stood at 75 days as on March 31, 2022 as against 89 days as on March 31, 2021. Inventory days stood at 7 days as on March 31, 2022 as against 14 days as on March 31, 2021. Subsequently, the payable period stood at 57 days as on March 31, 2022 as against 73 days as on March 31, 2021 respectively. Further, the average bank limit utilization in the last eight months ended November, 22 remained at ~88 percent for fund based facilities. 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.367.63 Cr, Reliance Projects and Property Management

Services Limited contributes to around ~80 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. Acuite believes that company's ability to diversify its customer base shall remain key sensitivity.

Rating Sensitivities

- > Ability to improve the scale of operations and profitability margins while maintaining the capital structure.
- > Any deterioration in working capital cycle and liquidity profile of the company.

Material covenants

None

Liquidity Position: Adequate

The liquidity profile of the company stood adequate, company is having net acsh accruals (NCA) of Rs 20.38 Cr ending FY2022 against its long term debt obligations of Rs. 11.01 Cr. The net cash accruals are expected to be in the range of Rs. 23-26 Cr against repayment obligations of Rs.1.80-2.75 Cr. The working capital cycle of VTSL stood high on account of high GCA (Gross Current Asset) days of 159 in FY2022. The fund based bank limits utilization of VTSL is 88 percent for fund based respectively for the past eight months ending November 2022. The current ratio of the company stood at 1.35 times as on March 31, 2022. Acuite believes that the liquidity of the firm is expected to remain adequate on account of moderate cash accruals against repayment obligations.

Outlook: Stable

Acuite 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 significant improvement in scale of operations and profitability margins while maintaining the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case VTSL registers 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.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	325.49	238.74
PAT	Rs. Cr.	4.79	0.33
PAT Margin	(%)	1.47	0.14
Total Debt/Tangible Net Worth	Times	4.26	3.49
PBDIT/Interest	Times	5.30	7.50

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general

understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Mar 2022	Cash Credit	Long Term	40.00	ACUITE BBB- Stable (Assigned)
	Bills Discounting	Short Term	15.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A4+ Downgraded
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE BB+ Stable Downgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	45.00	ACUITE BB+ Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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