Press Release

Vishvaraj Infrastructure Limited (VIL)

April 21, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs.214.60 Cr
Long Term Rating	SMERA BBB-(SO)/Stable (Assigned)
Short Term Rating	SMERA A3 (SO) (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of **'SMERA BBB-(SO)' (SMERA triple B minus Structured Obligation)** and short term rating of **'SMERA A3 (SO)' (read as SMERA A three Structured Obligation)** on the above mentioned bank facilities of Vishvaraj Infrastructure Limited (VIL). The outlook is **'Stable'**.

VIL, a flagship company of the Vishwaraj Group, was incorporated in 1992 as Vishvaraj Housing Company Private Limited (VHCPL). During 1999, VHCPL was acquired by Mr. Arun Lakhani and Mrs. Vandana Lakhani and reconstituted as a closely held public limited company in 2000. VIL is headquartered at Nagpur with its registered office in Mumbai, Maharashtra. VIL invests in Public-Private Partnership (PPP) infrastructure projects and is also engaged in Execution, Procuring and Construction (EPC). work for the same projects. VIL primarily executes infrastructure development projects in three segments i.e. water, waste water management and road and highways procured by the Vishvaraj Group of companies. VIL has 15 subsidiaries out of which seven are operational.

List of key rating drivers and their detailed description

Strengths:

Experienced management and long track record of operations: VIL is the flagship company of the Vishvaraj Group which was incorporated in 1992. The promoters, Mr. Arun Lakhani and Mrs. Vandana Lakhani have over two decades of experience in the infrastructure industry. The promoters have set up subsidiary companies such as Malegaon Manmad Kopergaon Infrastructure and Toll Road Private Limited, Warora Chandrapur Ballarpur Toll Road Limited, Orange City Water Private Limited among others in both toll road infrastructure and waste water management projects.

Healthy revenue visibility and stong order book position: VIL has strong order book position with unexecuted orders in hand of Rs.2165.11 cr as on December 31, 2016 expected to be executed within three to five years providing revenue visibility for the medium term. Further, VIL is setting up a Orange City mall (OCM) – a wholesale market in Nagpur in an area of nearly 8.5 lac sqft expected to be launched by the end of April – May 2017. The company anticipates customer advances of ~Rs. 30.00 cr by June 2017 expected to be adequate for debt servicing of VIL. Further, the lenders also have an exclusive first charge on cash accruals generated from VIL – 200 MLD STP waste water treatment facility for possible reuse of water in Nagpur. Scheduled COD is Feb 2018 but the company expects to achive the COD by Sep 2017 which will entitle the company to a bonus period. One of the lenders, namely IFCI, has an exclusive charge on an ESCROW mechanism for cash flows generated from Orange City mall for servicing of debt obligations.

Any delay in the launch of the wholesale market mall, receipt of customer advances or completion of waste water treatment plant is likely to affect debt protection metrics which in turn is expected to put a downward pressure on coverage indicators. Thus, timely receipt of customer advances from OCM and completion of the STP project will remain key rating sensitivities.

Malegaon Manmad Kopergaon Infrastructure and Toll Road Private Limited (JV of VIL and Essel Group) maintains a debt service reserve account (DSRA - in the form of duly lien-marked FD of Rs. 6.00 cr). In addition, the company is maintaining an unencumbered fixed deposit of Rs. 13.50 cr which can be used for debt servicing of VIL.

Weaknesses:

Uneven revenues and profitability margins: VIL's operating income stood at Rs.205.81 cr in FY2016 as compared to Rs.138.52 cr in FY2015 and Rs.228.02 cr in FY2014. The company has uneven revenue trend due to the project-based business. As per 11MFY2017 Provisionals, the operating income stood at Rs.225 cr.

Moderate financial risk profile: VIL's has high net worth of Rs.182.69 cr as on 31 March, 2016 which has revaluation reserves of Rs.15.39 cr. The gearing (debt to equity ratio) is low and stood at 0.79 times as on 31 March, 2016 as compared to 0.31 times as on 31 March, 2015 The total outstanding liabilities to Total Networth (TOL/TNW) stood at 1.09 times as on 31 March, 2016 as against 0.59 times as on 31 March, 2015. The Net Cash Accruals to Total Debt (NCA/TD) stood low at 0.01 times in FY2016 as compared to 0.02 times in FY2015. VIL's coverage indicators are moderate on account of high debt obligations. The Interest coverage ratio (ICR) stood at 1.23 times in FY2016 as against 1.20 times in FY2015. However, the promoters have infused funds by way of unsecured loans to repay debt obligations. Further, VIL has extended several corporate guarantees to the tune of Rs.392 cr to its subsidiaries as on March 31, 2016. The materialisation of the said guarantees may have an adverse impact on the financial and liquidity profile of VIL. The extension of corporate guarantees and its likely impact will be key rating sensitivities.

Working capital intensive operations and competitive nature of the infrastructure industry: VIL has working capital intensive operations evident from the high Gross Current Assets (GCA) of 201 days in FY2016 due to high debtors of 194 days. VIL has debtors of Rs. 67.49 crore outstanding for more than six months as on March 31, 2016. Further as indicated by management, VIL has recovered debtors of ~Rs.40.50 crore as on March 31, 2017.

VIL has received Rs.28.77 crore on Feb 18, 2017 from Government of Maharashtra towards bitumen escalation claim (due till July 2016) related to Malegaon Manmad Kopergaon Infrastructure & Toll Road Pvt. Ltd (MMKIPL) project. With this clearance, additional Rs.34.50 crore is also expected shortly towards escalation claim from August 2016 till date. Also, Rs.11.80 crore claim pertaining to VGF funding - 60 per cent grant on Warora Chanderpur Ballarpur Toll Road Limited (WCBTRL) is received from state government. This will result in improvement in debtor's position of VIL.

The average utilisation of working capital limit has been ~93 per cent in the last six months ended February 2017. Further, The infrastructure sector is marked by the presence of several mid to big size players. The company faces intense competition from other players in the sector. Risk becomes more pronounced as tendering is based on the minimum amount of biding of contracts. However, this risk is mitigated to an extent as the management has been operating in the environment for two decades.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of VIL and the support extended to the subsidiaries in terms of corporate guarantees. SMERA has also considered credit enhancement in the form of earmarked unencumbered fixed deposit of Rs. 13.50 cr which is expected to be maintanined in Malegaon Manmad Kopergaon Infrastructure and Toll Road Private Limited (JV of VIL and Essel group) available for VIL only.

Applicable Criteria

- Securitised Transactions - https://www.smera.in/criteria-securitization.htm
- Infrastructure Entities - https://www.smera.in/criteria-infra.htm
- Application of Financial Ratios and Adjustments: https://www.smera.in/criteria-fin-ratios.htm
- Default Recognition: https://www.smera.in/criteria-default.htm

Outlook: Stable

SMERA believes that VIL will maintain a stable outlook and continue to benefit over the medium term on account of the company's 's established market position and extensive experience of its promoters. The outlook may be revised to 'Positive' if the company registers substantial increase in profitability supported by healthy revenue growth and significant improvement in coverage indicators. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in net cash accruals and profitability margins or significant deterioration in the financial risk profile or liquidity position due to higher than expected debt-funded capex or elongated working capital cycle.

About the Rated Entity – Key Financials

For FY2015-16, VIL registered profit after tax (PAT) of Rs.1.36 cr on operating income of Rs.205.81 cr as against PAT of Rs.0.28 cr on operating income of Rs.138.52 cr in the previous year. The net worth stood at Rs.182.69 cr as on 31 March, 2016 as against Rs.181.00 cr in FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: N.A.

Rating History for the last three years:

Name of Instrument/ Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Ratin g	Date	Rating
Cash Credit	LT	33.00	SMERA BBB- (SO)/Stable (Assigned)	-	-	-	-	-	-
Term Loan	LT	98.00	SMERA BBB- (SO)/Stable	-	-	-	-	-	-

			(Assigned)						
Working Capital Demand Loan	LT	8.60	SMERA BBB-(SO)/Stable (Assigned)	-	-	-	-	-	-
Bank Guarantee	ST	75.00	SMERA A3 (SO) (Assigned)	-	-	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/ Outlook
Cash Credit	N.A.	N.A.	N.A.	33.00	SMERA BBB-(SO)/Stable (Assigned)
Term Loan	N.A.	N.A.	September, 2019	98.00	SMERA BBB-(SO)/Stable (Assigned)
Working Capital Demand Loan	N.A.	N.A.	N.A.	8.60	SMERA BBB-(SO)/Stable (Assigned)
Bank Guarantee	N.A.	N.A.	N.A.	75.00	SMERA A3 (SO) (Assigned)

Note on complexity levels of the rated instrument: https://www.smera.in/criteria-complexity-levels.htm

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ABOUT SMERA

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