

Press Release

Vinayak Support Services Private Limited

April 01, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities- Cash Credit	8.80	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Assigned
Total	8.80		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Vinayak Support Services Private Limited (VSSPL) favorably factor in the long track record of operation of the BKB group under experienced promoters, satisfactory project execution capabilities, reputed clientele, steady improvement in the scale of operations with healthy order book position of the BKB group indicating a stable near to medium term revenue visibility and group's comfortable financial risk. However, these rating strengths are partially offset by its tender based nature of business in fragmented industry with intense competition, risk of delay in project execution and exposure to execution challenges due to regulatory risks associated with mining related operations.

Key Rating Sensitivities

Upward Rating Factor

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in debt protection metrics, cash accruals and liquidity on a sustained basis
- Improvement in receivable management
- Sustenance of the capital structure of the BKB group with TOL/TNW remained below 3x

Downward Rating Factor

- Dip in operating income and/or profitability impacting the debt coverage indicators on a sustained basis
- Deterioration in receivable position impacting the liquidity
- Moderation in the capital structure

List of Key Rating Drivers with detailed description

Key Rating Strengths

Experienced management and long track record of operation

Incorporated in 1990, BKBTPPL is the flagship company of the BKB group, which started operation in 1992 and has a long track record of over 25 years in the field of coal transportation, contract mining and infrastructure development. The group was promoted by Jharkhand based Agarwal family. Further, the promoters in 1993 had set up Vinayak Support Services Pvt Ltd (VSSPL), for trading of coal and transportation of bauxite. Experienced management and long track record of both the companies supports the business risk profile of the group to a large extent.

Satisfactory project execution capabilities

The group has a satisfactory contract completion track record and there has not been any instance of invocation of performance bank guarantee or payment of liquidated damages. The group has around 25-30 engineers and highly qualified and experienced technical personnel. Besides, the group also has other qualified professionals at supervisory level.

Satisfactory order book position indicating a near-term revenue visibility

The group has a satisfactory order book position and as on January 31, 2020, the value of o/s orders in hand was Rs.1015.00 crore which is ~ 2.00x of the combined net sales of FY19 with original contract value of Rs.1328 crore. On a standalone basis, VSSPL has total orders amounting to Rs.39.75 crore which comprise mining and transportation of coal contracts.

Reputed Clientele

The clients of the group consist of reputed players from both private and public sectors. The present order book consists orders from reputed entities like Central Coalfields Limited, Damodar Valley Corporation, Hindalco Industries Ltd, Indian Railways, Minerals and Minerals Limited, NTPC and Bharat Coking Coal Limited etc.

Comfortable Financial Risk Profile

The financial risk profile of the group is comfortable marked by its comfortable capital structure and debt protection metrics. The overall gearing and TOL/TNW of the group stood comfortable at 0.81x and 2.20x respectively as on March 31, 2019 as compared to 0.75x and 1.74x as on March 31, 2018. The debt protection metrics is also comfortable marked by

interest coverage ratio and Total Debt/GCA at 3.83x and 2.99 years respectively in FY19 (3.93x in FY18). Going forward, Infomerics believes the financial risk profile to remain comfortable as the group has lower reliance on external debt and maintained a conservative capital structure.

On a standalone basis, the capital structure of VSSPL remained leveraged with overall gearing ratio at 4.16x and TOL/TNW at 10.45x respectively as on March 31, 2019. However, the debt protection metrics stood comfortable with interest coverage ratio of 4.31x in FY19.

Steady improvement in scale of operations in FY19 and in 9MFY20

The BKB group also has a record of accomplishment of achieving revenue more than Rs.300 crore continuously in the last 6 years. Further, the group's combined total operating income registered a healthy CAGR of ~20% during FY17-19 with a y-o-y growth of 19.80% in FY19. The growth was mainly driven by steady inflow of orders and successful execution of the same. The sustained revenue growth coupled with stable operating margins have helped the group to achieve healthy annual cash accruals ~ Rs.24 crore in FY 19. Further, the healthy order book of Rs.1015.00 crore as on Dec 31'19 indicates a steady revenue visibility in the near to medium term. During 9MFY20, the group has achieved a total operating income of Rs.363 crore.

On standalone basis, VSSPL recorded total operating income of Rs.185.90 crore in FY19 thereby registering a y-o-y growth of ~36% in FY19. The operating income has increased mainly due to increase in trading income i.e. trading of coal.

Key Rating Weaknesses

Tender based nature of business and fragmented industry with intense competition

The BKB group operates in a tender based business sector and faces competition from other national level large players and small unorganized players who generally specialize in one or two business segments only. Revenues are dependent on the company's ability to bid successfully for tenders.

Risk of delay in project execution

BKB's business is susceptible to financial loss arising out of delay in project execution, as generally there exists a penalty clause for delay in contract execution.

Exposed to execution challenges due to regulatory risks associated with mining

Coal mining related operations remain exposed to regulatory risks, which can lead to potential closure in case of violation of statutory norms. Moreover, the mining belts are prone to law and

order problems, which may result in unforeseen delays in project execution.

Analytical Approach: Consolidated

Infomerics have consolidated the financials and business risk profile of Vinayak Support Services Private Limited and BKB Transport Private Limited as both these entities have a common management team and operational & financial linkages. Further, both these companies have cross shareholding wherein BKBTPPL is holding equity in VSSPL and vice-versa. Further, the management of both the entity is common wherein the family members of Agarwal family is looking after the day-to-day operations of both the companies.

Applicable Criteria

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

Liquidity position of the group is expected to remain adequate marked by expected gross cash accruals in the range of Rs.26-30 crore in FY20-FY22 as compared to debt obligation in the range of Rs.4-5 crore. Further, with a gearing of 0.82 times as of March 31, 2019, the BKB group has sufficient gearing headroom, to raise additional debt for its capex though the company has no near term major capex or debt avilment plan. Further, the combined average utilization of fund based bank limit was around ~79 % during the last eight months ending Nov 30, 2019 indicating a moderate liquidity buffer. On a standalone basis, VSSPL also expected to have adequate liquidity with an expected GCA in the range of ~Rs.11.5-13.00 crore as each compared to debt obligation of Rs.4.25 crore each year during FY20-FY22.

About the Company

VSSPL was set up in 1993, by the Agarwal family. The company is engaged in transportation of bauxite and coal. In addition it is engaged in trading of coal. It is a Jharkhand based company which is part of the BKB group. The company executes orders for Hindalco Industries Limited. In addition the company also executes order for Minerals and Minerals Limited. The flagship company of the group is BKB Transport Private Limited engaged in coal transportation, mining contracts, bauxite transportation and infrastructure development.

About the Group

Incorporated in 1990 BKB group is a Jharkhand based business group engaged in coal transportation, mining contracts, bauxite transportation and infrastructure development. Initially the group started with coal transportation in BKBTPPL. Since then, the group through BKBTPPL forayed into contract mining activities (open cast) and is currently, into activities like site leveling, excavation, evacuation, surface mining, drilling, blasting and other related civil construction. Since, 2004 BKB ventured into infrastructure development like construction of railway bridges. The promoters has also set up VSSPL in 1993 which is engaged in bauxite mining for Hindalco Industries Limited. In addition the group through VSSPL also executes order for other companies.

Financials (Combined):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	450.45	539.59
EBITDA	29.78	36.85
PAT	11.50	14.46
Total Debt	52.63	68.94
Tangible Net worth	70.18	84.85
EBITDA Margin (%)	6.61	6.83
PAT Margin (%)	2.55	2.66
Overall Gearing Ratio (x)	0.75	0.81

*Classification as per Infomerics' standards.

Financials (Standalone) :

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	137.07	185.90
EBITDA	9.56	16.17
PAT	3.06	3.50
Total Debt	22.97	41.96
Tangible Net worth	7.36	10.09
EBITDA Margin (%)	6.98	8.70
PAT Margin (%)	2.23	1.88
Overall Gearing Ratio (x)	3.12	4.16

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	8.80	IVR BBB/ Stable Outlook	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	8.80	IVR BBB/ Stable Outlook