Press Release

BVG India Limited [BVG]

April 23, 2020

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1	Long Term (Fund based)	674.00	IVR A/ Stable Outlook; (IVR Single A with Stable Outlook)	Assigned
2	Long Term/ Short Term (Non-Fund based)	461.50	IVR A/ Stable Outlook/ IVR A1 (IVR Single A with Stable Outlook/ IVR A One)	Assigned
Total		**1135.50**		

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from experienced promoters, certifications & affiliations, bouquet of integrated services, nation-wide presence & large & reputed client base, strong order book, steady revenue growth & comfortable debt protection parameters. The rating however is constrained by declining EBITDA margin & volatile PAT margin, elongated operating cycle, competition from other players and impending decision of the Income Tax search. Infomerics also takes the note of change in auditors before natural rotation and Delay in finalization of audited financials for FY19 & subsequent delay in uploading of audited financials on ROC website.

Key Rating Sensitivities:

- **Upward Rating Factor:**

  Collective factors leading to upgrade;

  Sustained improvement in revenue & profitability while maintaining the debt protection metrics

  Improvement in cash conversion cycle

  Favourable outcome of the Income Tax search proceedings

- **Downward Rating Factor:**

  Any deterioration in revenue & profitability margin leading to deterioration in debt protection metrics

  Further elongation of cash conversion cycle

  Any adverse outcome of the income tax proceeding leading to negative impact on company's operational as well as financial efficiencies

<u>Detailed Description of Key Rating Drivers</u>

Key Rating Strengths

Experienced Promoters

BVG's promoters, Mr. H. R. Gaikwad (Chairman and Managing Director, B.E. Electronics) and Mr. Umesh Mane (Vice Chairman and Joint Managing Director, M.Com.) have extensive experience in facility management industry. Mr. H. R. Gaikwad established a social-commercial business "Bharat Vikas Services" in 1997 along with Mr. Umesh Mane and just 8 employees, with an aim of creating employment opportunities for rural youth. In 2002 Bharat Vikas Utility Services Ltd. was formed to undertake major ventures. Later on, the name of the company was changed to BVG India Ltd. in 2004. Mr. Umesh Mane is the co-founder of Bharat Vikas Group, having vast experience in the Banking Sector. As Vice Chairman & Joint MD of BVG India Ltd., he is responsible for entire operations and execution of the Company. The promoters are being supported by a team of qualified professionals.

Certifications & Affiliations

The Company has following certifications viz. ISO 9001:2008 (QMS Certified Company), OHSAS 18001:2007 (Occupational Health & Safety Management Systems), SA 8000:2008 (Social Accountability Standards), ENISO 14001:2004 (Environment Management Systems). The Company also has following affiliations viz. Cleaning Management Institute (CMI), USA, British Institute of Cleaning Sciences (BICS), UK, British Institute of Facility Management (BIFM), UK, International Facility Management Association (IFMA).

Provision of complete bouquet of integrated services

The Company is engaged in complete bouquet of integrated services viz. total facility management, mechanized housekeeping, emergency medical response &ancillary services to the police department, solid waste management, transportation, plant relocations, attendant services & labour supply. It also undertakes various projects for garden development, landscaping, beautification projects, engineering & other contracts for Government & private organizations.

Nation-wide presence & large & reputed client base

BVG is one of the major player in the organized Facility Management brands, having over 75,000+ employees, it is spread over 780 sites in over 70 cities and 20 states Pan India providing services to over 750 satisfied clients. With a strong, dedicated team of thorough professionals, BVG provides varied services & solutions to all its customers in Government sector like Parliament House, Prime Minister House & office and Private sectors like Tata Motors Ltd., Bajaj, Mahindra, Accenture, ITC, and ONGC etc. Out of the total Revenue from operations of INR 1817 Crore in FY19, top 10 customers accounted for 43% of total revenue, indicating a diversified client-base. The Company has high client retention rate with 70% repeat customers due to their satisfactory & up to the mark services.

Strong order book

As at December 31, 2019, the company had unexecuted orders on hand worth INR 3,400 Crore; which is 1.87 times of FY19 turnover of INR 1817 Crore. Of the total orders on hand of INR 3,400 Crore, orders worth INR 1,905 Crore attributed to Facility Management Services, INR 1,339 Crore towards Emergency response services & INR 156 Crore from other segments. . The new orders received in FY20 till February end are about INR 854 Crore.

Steady revenue growth & comfortable debt protection parameters

Over a period of last 3 years, the Company's total income from operations kept on increasing, from INR ~1499 Crore in FY17 to INR ~1694 Crore in FY18, indicating growth of 13% & then rose to INR ~1818 Crore in FY19, recording a growth of only 7.32%. The low growth in FY19 was due to the exit from Rural Electrification (RE) vertical from FY19 onwards. In 9MFY20 the company had achieved a revenue of INR 1435 Crore (9MFY19: INR 1342 Crore).

The overall gearing ratio of the Company is comfortable at 1.11x as at FY18 & 1.10x as at FY19. The Total outside liabilities to Tangible Net Worth of the Company has improved from 3.52x as at FY18 to 2.01x as at FY19. The interest coverage ratio stands healthy at 3.11x in FY18 & 3.24x in FY19.

Key Rating Weaknesses

Declining EBITDA margin & volatile PAT margin

The EBITDA margins were 19.81%, 14.57% & 13.35% in FY17, FY18 & FY19 respectively. The fall in EBITDA margin in FY18 was due to increase in minimum wage rates by State & Central Govt. in accordance with Minimum Wages Act & yearly increments offered by the Company. The marginal decline in the EBITDA margin in FY19 is majorly due to change in the segment mix.

The PAT margin reduced from 9.15% in FY18 to 4.45% in FY19. The low PAT in FY19 was due to Non-operating expenses of INR 9.86 Crore (Impairment loss), INR 22.70 Crore (Provision for expected credit loss) & INR 41.26 Crore (Balances written-off). Also, low profit was due to discontinuation of the Rural Electrification (RE) projects business in FY19. The major reason for the exit is owing to delays in collection from DISCOM.

Elongated Operating cycle

The Company's average collection period has increased from 146 days in FY18 to 156 days in FY19 due to delay in payments from customers mainly government agencies. However, in absolute terms, the debtors have reduced from INR 818 Crore as at 31-Mar-2018 to INR 734 Crore as at 31-Mar-2019. Resultantly, creditor days have been stretched.

Competition from other players

The industry is highly fragmented due to the presence of a number of organized & unorganized players leading to high competition in the industry. Thus, the company faces stiff competition from reputed players in the industry. Also, the nature of business being tender-based, tender-based operations involve intense competition and competitive bidding which may affect its profitability. Intense competition also leads to high staff attrition rate at lower level.

Impending decision of the Income Tax search

On November 6, 2019, a Search/ Survey was conducted on the Company by the Income Tax Dept. pursuant to provisions of Sec. 132/133 of the Act. The proceedings covered various office locations & residences of certain Directors & employees of the Company. As per the management the Company has not yet received any demand notice with respect to these proceedings. The Company is in the process of providing information & explanation sought by the tax authority.

In the absence of any appraisal or demand order, management is currently unable to quantify any possible tax/penalty obligation that may arise out of the said search/ survey proceedings. Accordingly, no provision has been made pursuant to above matter in the books of the company. The Management contends that in the event of tax liability, if any, being imposed by Income Tax authority on the Company, will not impact the cash flows of the Company immediately, as it has the right to appeal to higher authorities.

However, the outcome of the search/ survey is a key rating monitorable.

Change in Auditor before end of term

The Company's erstwhile auditor KPMG was completing their 10th year of audit for the Company in the FY 18-19. FY 18-19 was supposed to be the last year of audit for KPMG and therefore auditor rotation was due in FY 19-20.

As the company intend to hit capital market in short to medium term, the Company had changed their existing Auditors in FY19, who were due for rotational change, a year earlier to ensure timely & smooth implementation of their capital market plans.

Delay in finalization of audited financials for FY19 & subsequent delay in uploading of audited financials on ROC website

The delay in finalization of audited financials was due to chain of events. The company had appointed external consultant for the SAP migration which had become imminent in view of growing operations and pan India offices. The SAP migration was expected to be completed by March 2019 but however the development of various customizations and the entire migration process took more time than the schedule and was completed in Aug 2019. Secondly, due to change in the auditor as explained. Company had taken extension from ROC for holding AGM upto 30/11/2019. However, the company had filed the audited financials with ROC only in March 30, 2020 with further delay.

Analytical Approach & Applicable Criteria:

- Standalone
- Rating Methodology for service sector companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The Company has been earning a comfortable level of GCA for the last three years and the same is expected to increase further with an increase in scale of operations. The company maintains moderate cash and bank balance to meet its liquidity requirements. The average utilization of working capital limits remained at 89% during the 12 months ended December 31, 2019. Overall the liquidity position of the company is expected to be Adequate.

About the company

Incorporated in 1997 by Mr. Hanmantrao Ramdas Gaikwad & Mr. Umesh Gautam Mane (First Generation Entrepreneurs). BVG stands for 'Bharat Vikas Group', is India's largest Integrated Services Company. BVG is having its headquarter in Pune (Hinjewadi, Phase-I). BVG provides varied services & solutions like Mechanized Housekeeping, Healthcare, Emergency Services, Landscaping & Gardening, Logistic & Transportation, Civil and Electrical etc. to all its customers in Government sector like Parliament House, Prime Minister House & office and Private sectors like Tata Motors Ltd., Bajaj, Mahindra, Accenture, ITC, and ONGC etc.

Financials (Standalone)

INR in Crore

For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (A)
Total Operating Income	1693.58	1817.59
EBITDA	246.74	242.56
PAT	159.81	81.49
Total Debt	539.09	576.46
Tangible Net Worth	485.84	569.08
EBIDTA Margin (%)	14.57	13.35
PAT Margin (%)	9.15	4.45
Overall Gearing ratio (x)	1.11	1.01

* *Classification as per Infomerics' standards*

Details of Non Co-operation with any other CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Name of Instrument / Facility	Current Rating (Year: 2020-21)			Rating History for the past 3 years		
	Type	Amount outstanding (INR Crore)	Rating	Rating assigned in 2019-20	Rating assigned in 2018-19	Rating assigned in 2017-18
Fund Based Facilities	Long Term	674.00	IVR A/ Stable Outlook	--	--	--
Non-Fund Facilities	Long Term/ Short Term	461.50	IVR A/ Stable Outlook/ IVR A1	--	--	--
	Total	**1135.50**				

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.

Annexure 1: Details of Facilities

Sr. No.	Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
1	Fund Based facility	--	--	--	674.00	IVR A/ Stable Outlook
2	Non-Fund Based facility	--	--	--	461.50	IVR A/ Stable Outlook/ IVR A1
Total					**1135.50**	