



## Press Release

### Velankani Information Systems Limited

July 07, 2022

#### Ratings

Instrument / Facility	Amount (INR. Crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Bank Facility (LRD)	274.59  (Reduced from INR296.41 Crore)	IVR BBB / Stable  (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
<b>Total</b>	<b>274.59</b> <b>(Two Hundred</b> <b>Seventy-Four</b> <b>Crore and Fifty-</b> <b>Nine Lakh Only)</b>			

**Details of Facilities are in Annexure 1**

#### Detailed Rationale

The reaffirmation of ratings to the bank facilities of Velankani Information Systems Limited (VISL) continues to draw comfort from extensive experience of the directors, benefits associated with location advantage, comfortable profitability margins, escrow mechanism and structured payment, long term lease agreement with reputed client.

However, the rating strengths are partially offset by exposure to group companies, capital intensive nature of industry, Inherent renewal risk of lease agreements and Susceptibility to cyclicity inherent in the Commercial Real Estate sector.

#### Key Rating Sensitivities:

##### Upward Factors

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectation could lead to a positive rating action.

##### Downward Factors

- Sharp fall in operating income and dip in profitability impacting the debt coverage indicators or liquidity, subdued industry scenario could lead to a negative rating action.



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- Vacating by any company and/or external factor leading to decline in cash flows as projected will lead to a rating downgrade.

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

##### Extensive Experience of the Directors

Extensive experience of the promoters continues to support the business risk profile of the VISL as promoters have 28 years of experience in executing commercial project in the electronic city of Bengaluru, thus helping to forge healthy relationship with clients.

The senior management team is ably supported by a strong line of mid-level managers.

##### Benefits Associated with Location Advantage

The property is in Electronic City, which is one of the biggest industrial park spread across 800 acres in Konappana Agrahara and Doddathogur villages in Bangalore. It has well developed infrastructure in terms of connectivity to other important localities of Bangalore city. Proximity of the hotel from important locations adds to the advantage as well. Bengaluru Airport is 55 kms from the hotel.

##### Comfortable Profitability Margins

The company has a comfortable profitability margin with EBITDA Margin of 63.04% in FY21 and 58.61% in FY22(Provisional). PAT margin has also improved from 5.04% in FY21 to 14.97% in FY22(Prov.). The increase in margins is due to constant decrease in the interest expense and overall improvement in revenue of the company.

##### Escrow Mechanism and Structured Payment

The bank loan facility of HDFC Bank, Federal Bank and term loan III of Aditya Birla Finance Ltd. has been structured in the form of a Lease Rental Discounting (LRD) facility. The terms of the LRD facility require that the lease rental receivables from the tenants be routed directly to an Escrow Account set up specifically for the repayment of the said LRD facility and are applied towards payment of the scheduled interest and principal repayments. The company also has DSRA account with 2 months instalments reserved in that. The terms of the term loan facility require that the lease rent receivables be routed directly to an Escrow Account and applied towards payment of scheduled interest and principal repayments of the



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Term Loan. The balance amount is to be transferred to the corporate account of Velankani Information Systems Limited.

### **Long Term Lease Agreement with Reputed Organisation**

VISL has entered into a lease agreement with to lease out office building situated at Electronic City, Bengaluru. The tenant profile also remains strong with marquee tenants such as Deutsche India Private Limited (erstwhile DBOI Global Services Private Limited), Intertrustviteos Corporate and Fund Services Private Limited, Mahindra Electric Mobility Limited, Syngene International Limited, Emerson Automation Solutions Intelligent Platforms Private Limited, Velankani Software Private Limited, Mindtree Limited, Enerzinx India Private Limited, Delvi Tech, Hybiscus LLP, Quercus, Bydesign India Private Limited, Euronet Services India Private Limited, Bharti Airtel Limited which reduces the counterparty default risks.

### **Key Rating Weaknesses**

#### **Exposure to Group Companies**

VISL has invested INR416.96 Crore in FY22 (INR 416.30 Crore in FY21) which is almost 230% of FY22 Net Worth. However, The Company is taking measures and is in the process of reducing funding/investment in Group Companies.

#### **Capital Intensive Nature of Industry**

The hotel segment is capital intensive industry on the back of maintenance capex expenses. Further, high fixed operational cost in the hotel also creates a challenge to continue operations. Generally, the payback period (PBP) for a new hotel is in the range of 5-6 years. Further, the maintenance capex required for the hotel industry also remains high owing to regular replacement of equipment to remain updated with the latest technology.

#### **Inherent Renewal Risk of Lease Agreements**

The lease rentals are generally signed for 5-10 years with a renewable option for another 3 to 5 years terms. Further, any lessee can vacate the premises though sufficient notice period of 6-12 months is to be served. However, the rentals are in line with other tech parks of Electronic City which reduces the possibility of contract termination by clients.



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### **Susceptibility to cyclicality inherent in the Commercial Real Estate sector**

The real estate sector is volatile in nature with an inherent liquidity risk associated to it. There may be fluctuations in cash flows due to delayed realization & changes in regulatory requirements. The uncertainty pertaining around Covid-19 also dents the demand of commercial as well as residential real estate demand.

**Analytical Approach:** Standalone

### **Applicable Criteria**

[Rating Methodology for Real Estate Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Rating Methodology for Structured Debt Transaction \(Non-securitisation transaction\)](#)

### **Liquidity – Adequate**

The Term Loan is structured in the form of Lease rental discounting facility and the cash flow is coming in the Escrow accounts. The company also has DSRA account with 2 months instalments reserved in that. The terms of the term loan facility require that the lease rent receivables be routed directly to an Escrow Account and applied towards payment of scheduled interest and principal repayments of the Term Loan. Overall liquidity position seems to be Adequate. Cash and cash equivalent was modest at INR 10.85 Crore as on March 31, 2021.

### **About the Company**

VISL specializes in creating turnkey solutions in the field of construction and contracting, infrastructure development, technology parks, and hospitality. VISL also owns and manages The Oterra, a five-star, full-service luxury deluxe hotel located strategically in the technology hub of the Bengaluru city and 46 Ounces Restaurant. Additionally, the company owns and manages the Velankani Technology Park, aesthetically designed 21.59 acres campus located in Electronics City, Bengaluru offering infrastructure for the IT sector and comprising total leasable area of 7,86,640 sq.ft. housing over 8000 professionals. VISL has rented out the space in Technology Park to various companies.



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### Financials (Standalone):

(INR. Crore)

For the year ended*/ As on	31-3-2021	31-3-2022
	(Audited)	(Provisional)
Total Income	74.87	83.72
EBITDA	47.20	49.07
PAT	4.70	17.28
Total Debt	458.06	467.78
Tangible Net Worth	171.49	181.00
EBITDA Margin (%)	63.04	58.61
PAT Margin (%)	5.04	14.97
Overall Gearing Ratio (x)	2.67	2.58

\* Classification as per Infomerics` standards

### Status of non-cooperation with previous CRA: Nil

### Any other information: Not Applicable

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (INR. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (May 22, 2022)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan (LRD)	Long Term	274.59	IVR BBB/ Stable	IVR BBB/ Stable	--	--

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### About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).





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Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit [www.infomerics.com](http://www.infomerics.com).

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan (LRD)	-	-	Upto June, 2031	274.59	IVR BBB/ Stable (IVR Triple B with Stable Outlook)

**Annexure 2: List of companies considered for consolidated analysis: Not Applicable.**

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/Len-Velankani-july22.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable**



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**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](http://www.infomerics.com).

