August 05, 2022

# VRC Silos Private Limited: [ICRA]A(Stable) assigned

## Summary of rating action

| Instrument* | Current Rated Amount (Rs. Crore) | Rating Action |
|---|---|---|
| **Long-term Fund-based – Term loan** | 45.00 | [ICRA]A (Stable); assigned |
| **Total** | 45.00 | |

**Instrument details are provided in Annexure I*

## Rationale

The rating assigned to VRC Silos Private Limited (VSPL) takes into account the long-term concession agreement (30 years of operations) with the Food Corporation of India {FCI, 'the authority', rated [ICRA]AAA(CE)}, a strong counterparty, for operating a 50,000-MT silos under design, build, finance, own and operate (DBFOO) basis. The rating draws support from the operational status of the project with a track record of nearly three years. As per the concession agreement, VSPL will receive guaranteed fixed charges (payable even if no grains are stored) as well as variable and handling charges (depending on the quantity stored and handled) on a monthly basis from FCI, which would be revised every year based on the inflation indices. The rating favourably notes the project's comfortable coverage metrics with cumulative debt service coverage ratio (DSCR) projected to be over 1.25 times over the debt tenure. Further, the company is required to maintain a debt service reserve account (DSRA), equivalent to three months of debt servicing obligations for the term loan. ICRA has considered the financial flexibility in terms of debt refinancing, arising from its long concession period of 30 years and strong parentage (VRC Construction India Pvt Ltd, rated [ICRA]A(Stable)/[ICRA]A2+).

The rating is, however, constrained by the operational risk, which includes any losses incurred owing to the material default/ breach with regards to operation and maintenance of the silo complex as per the standards specified in the concession agreement, as well as material quality and quantity loss of the food grain in custody of the concessionaire, leading to deductions from the payments received from FCI. Nevertheless, the standard procedures followed the company and insurance cover mitigate the risk to an extent. Further, the rating factors in the risk related to under-utilisation of silo capacity affecting the variable payments. However, given the relatively smaller share of variable charges (5% of overall cash flows at full utilisation), the impact on the debt coverage metrics is low. VSPL is also exposed to the high asset concentration risk with the silo complex located at Sekha-Barnala in Punjab. The rating notes the exposure to the interest rate risk, although the inflation-linked increase in revenues will mitigate the risk to a major extent. While the unsecured loan from the promoters is interest bearing, it is subordinated to the bank debt to be maintained till the tenure of senior debt.

The Stable outlook on the long-term rating reflects ICRA's expectation that the strong counterparty with established track record of payments for three years will facilitate stable cash flows and consequently, comfortable coverage metrics.

## Key rating drivers and their description

### Credit strengths

**Operational project, annuity nature of cash flows with strong counterparty providing cash flow visibility –** VSPL had completed the construction of the project in FY2020 and the same has been made available to FCI for storage of grains as per the concession agreement. Given the operational status of the project, and the long-term agreement with FCI, which is a strong counterparty and the nodal agency for creation of modern storage facilities for food grains, the execution and market risks associated with the project is mitigated. The committed fixed charges to be received from FCI provides strong visibility of cash inflows. Further, there is a track record of payment from FCI, which has been chiefly within the scheduled time as per the concession.

**Comfortable coverage metrics with presence of reserve for DSRA provides comfort –** VSPL's coverage metrics are expected to remain comfortable with cumulative DSCR projected to be over 1.25 times over the debt tenure. As a part of itsdebt structure, VSPL is required to maintain an escrow account with the lending bank and all the cash flows of the project are required to be deposited in the escrow account. Further, as per sanctioned terms, VSPL is maintaining a DSRA equivalent to three months of debt servicing obligations for the project loan, which provides comfort.

**Financial flexibility from the long concession period and its parentage –** The long concession period of 30 years provides financial flexibility in terms debt refinancing using the cash flows available during the long tail period. The project life coverage ratio (PLCR) is estimated to be over 1.7 times. Further, VSPL benefits from the financial flexibility arising out of the strong profile of its sponsor - VRC Constructions (India) Private Limited (rated [ICRA]A (Stable)/[ICRA]A2+).

## Credit challenges

**High asset concentration and interest rate risks –** VSPL's scale of operations is modest with an operating income (OI) of around Rs. 7 crore in FY2022. It operates the silo complex in Sekha-Barnala (Punjab) and faces high asset concentration. This exposes the company to the risk of any force majeure event, which could impact the asset. However, the insurance cover mitigates the risk to an extent. Further, the interest rate on the rupee term loan is linked to the bank's MCLR, thus, increasing the exposure to interest rate risk. ICRA also takes comfort from the stability of cash flows, and inflation-linked increase in revenues, which will mitigate the risk to a major extent.

**Exposure to capacity under-utilisation and operational risk –** Though a significant portion of the rentals is fixed (subject to availability of silos), a part of consideration from FCI is variable and linked to the capacity utilisation of the storage silos (5% of overall cash flows at full utilisation). This exposes the company to risk of lower utilisation of the facility or lower-than-normative availability, which may impact its cash inflows and coverage metrics. However, given the relatively smaller share of variable charges, the impact on the debt coverage metrics is low. Further, the entity is exposed to the material default/ breach with regard to operation and maintenance of the silo complex as per the standards specified in the concession agreement, leading to deductions from the payments received from FCI. However, though the standard procedures followed by the company and insurance cover mitigates the risk to an extent. ICRA has considered the various provisions of the concession agreement with FCI involving the quality of the goods stored, as a deterioration in the same can result in liabilities for the special purpose vehicle (SPV).

## Liquidity position: Adequate

VSPL's cash flow from operations are expected to remain adequate to meet the debt servicing obligations. Further, the company had cash balances of Rs. 2.92 crore (including DSRA for three months of debt servicing) as on March 31, 2022, as per the provisional numbers, that provides adequate liquidity comfort.

## Rating sensitivities

**Positive factors –** ICRA could upgrade VSPL's rating if there is a sustained track record of timely payments from FCI without material deductions. The ratings may also be upgraded if there is an improvement in the credit profile of the authority.

**Negative factors –** Negative pressure on VSPL's rating could arise if there are significant delays or deductions in receipt of the rentals and/or higher-than-anticipated operational expenditure resulting in lower cash flows on a sustained basis. Further, non-compliance to the concession terms leading to penalties/ deductions and/or any non-adherence to the debt structure by VSPL could also put pressure on the rating. Specific credit metrics that could lead to a rating downgrade include cumulative DSCR falling below 1.1 times. Significant degradation in the credit profile of the authority could also put pressure on the ratings.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Project Finance Transactions |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | Standalone |

## About the company

Incorporated in 2017, VRC Silos Private Limited is a subsidiary of VRC Constructions (India) Private Limited (VRC), established as an SPV to construct silo storage systems for storing grains up to 50,000 MT, along with dispatch facilities of grains by rail wagons and trucks. The construction of the silos commenced in November 2017 and rail siding in July 2018. The entire project became operational in October 2019. Located in Sekha-Barnala (Punjab), these silos have been made available to the Food and Civil Supplies Department through FCI for 30 years on DBFOO basis, under the Food Security Act of the Government of India.

### Key financial indicators (audited)

| Standalone | FY2021 | FY2022* |
|---|---|---|
| **Operating income** | 6.9 | 6.9 |
| **PAT** | -0.5 | 0.2 |
| **OPBDIT/OI** | 84.8% | 85.8% |
| **PAT/OI** | -6.7% | 3.0% |
| **Total outside liabilities/Tangible net worth (times)** | -57.6 | -75.6 |
| **Total debt/OPBDIT (times)** | 8.9 | 8.8 |
| **Interest coverage (times)** | 1.2 | 1.9 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; *Provisional data*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2023) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as on March 31, 2022 (Rs. crore) | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 |
| | | | | | August 05, 2022 | - | - | - |
| **1** | Term loans | Long term | 45.00 | 44.08 | **[ICRA]A (Stable)** | - | - | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term fund-based – Term Loan | Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | Term Loan | FY2022 | NA | 2036 | 45.0 | [ICRA]A (Stable) |

*Source: Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

## Annexure II: List of entities considered for consolidated analysis: Not Applicable

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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## Branches




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