

November 09, 2023

VRC Silos Private Limited: Rating reaffirmed

Summary of rating action

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

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for VRC Silos Private Limited (VSPL) factors in its steady performance, driven by timely payments from the Food Corporation of India (FCI, rated [ICRA]AAA(CE)) and healthy utilisation levels (over 85%), which is expected to sustain going forward. The rating continues to favourably consider the operational status of the project with a track record of nearly four years and the long-term concession agreement (30 years of operations) with the FCI, a strong counterparty, for operating a 50,000-MT silo under design, build, finance, own and operate (DBFOO) basis. 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) monthly from FCI, which would be revised every year based on the inflation indices. The rating also notes the project's comfortable coverage metrics over the debt tenure and requirement 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. (VRC), 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 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 stringent procedures followed by the company and insurance cover taken (for fixed and current assets) mitigate the risk to an extent. The rating also factors in the cross-default linkages of VSPL with its promoter, VRC. VSPL is exposed to high asset concentration risk with the sole silo complex located in Sekha-Barnala, in Punjab. It is also susceptible to interest rate risk, although the inflation-linked increase in revenues will mitigate the risk to a major extent. ICRA notes that the unsecured loan from the promoters is interest bearing in nature. However, it is subordinated to the bank debt and will 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 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. 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 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 largely 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 over the debt tenure. As a part of its debt structure, the company 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 the 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 long concession period and its parentage – The long concession period of 30 years provides financial flexibility in terms of debt refinancing using the cash flows available during the long tail period. The project life coverage ratio (PLCR) is estimated to be over 1.6 times. Further, VSPL benefits from the financial flexibility arising out of the strong profile of its sponsor – VRC.

Credit challenges

Exposure to capacity under-utilisation and operational risk – A significant portion of the rentals is fixed (subject to availability of silos). However, a part of consideration from FCI is variable and remains 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 affect its cash inflows and coverage metrics. 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 regards 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, the standard procedures followed by the company and insurance cover mitigate this 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).

High asset concentration and interest rate risks – VSPL operates the silo complex in Sekha-Barnala (Punjab) and faces high asset concentration. Presence in a single location presence exposes the company to any force majeure event, which could impact the asset. However, the insurance cover taken 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. Nevertheless, ICRA takes comfort from the stability of cash flows, and inflation-linked increase in revenues, which mitigates the interest risk to a major extent. The rating also factors in the cross-default linkages of VSPL with its promoter, VRC.

Liquidity position: Adequate

VSPL’s cash flow from operations are expected to remain adequate to meet the debt servicing obligations. The company had cash balances of Rs. 1.79 crore (including DSRA for three months of debt servicing) as on March 31, 2023, which provides adequate liquidity support.

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 rating may also be upgraded if there is an improvement in the credit profile of FCI and the promoter.

Negative factors – Negative pressure on VSPL’s rating could arise if there are substantial 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 put pressure on the rating. Specific credit metrics that could lead to a rating downgrade include cumulative DSCR falling below 1.1 times. Significant deterioration in the credit profile of the FCI or the promoter could also put pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
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 a silo storage system 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)

VRC Standalone	FY2022	FY2023
Operating income	6.9	7.9
PAT	1.7	0.3
OPBDIT/OI	87.7%	86.0%
PAT/OI	24.7%	4.3%
Total outside liabilities/Tangible net worth (times)	NM	NM
Total debt/OPBDIT (times)	NM	NM
Interest coverage (times)*	1.8	1.3

Source: ICRA Research, Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore;

*includes the interest on unsecured loans as well, though subordinate to external term loan

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Nov 09, 2023	Aug 05, 2022	-	-
1 Term loan	Long-term	45.00	41.68	[ICRA]A (Stable)	[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: [Click Here](#).

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2022	NA	2036	45.00	[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

ANALYST CONTACTS

Rajeshwar Burla

+91 40 4547 4829

rajeshwar.burla@icraindia.com

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Ritu Goswami

+91 124 4545 826

ritu.goswami@icraindia.com

Mrinal Jain

+91 124 4545845

mrinal.jain@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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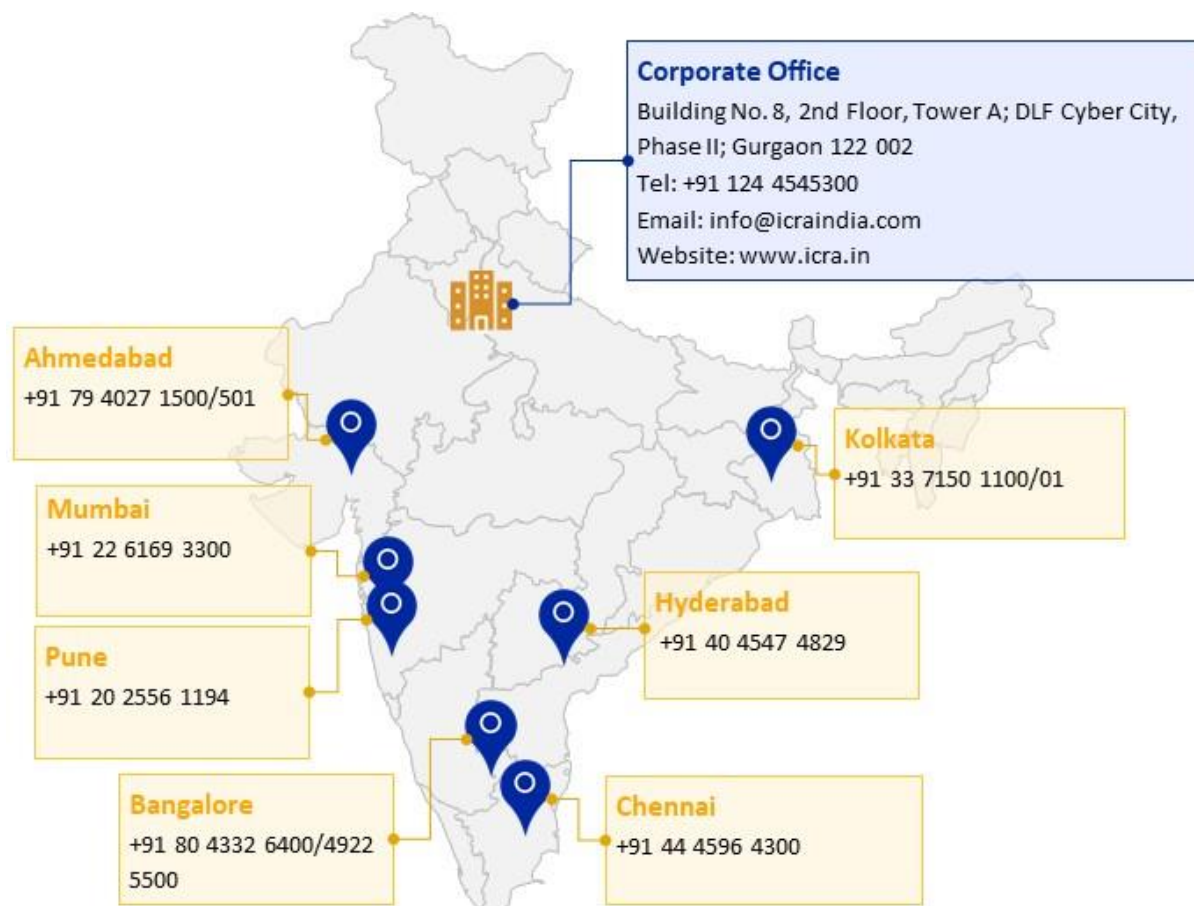


Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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