

December 27, 2024

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 its strong sole counterparty, which is the Food Corporation of India {FCI, rated [ICRA]AAA(CE) (Stable)}, and healthy utilisation levels (over 80%) expected to sustain over the medium term. The rating favourably considers the operational status of the project with a track record of nearly five years operations, with a long-term concession agreement (30 years of operations), for operating a 50,000-MT silo under design, build, finance, own and operate (DBFOO) basis. Despite availing top-up loan (aggregating ~Rs. 9 crore in November 2023 for repayment of unsecured promoter loans), the project is likely to maintain comfortable coverage metrics over the debt tenure, though some moderation is expected. Further, maintenance of a funded debt service reserve account (DSRA), equivalent to three months of debt servicing obligations, provides comfort. ICRA has also considered the financial flexibility, in terms of debt refinancing, arising from its long concession period of 30 years and strong parentage (VRC Construction (India) Limited (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, coupled with 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) mitigates the risk to an extent. The rating factors in the cross-default linkages of VSPL with its promoter, VRC. VSPL is exposed to high asset concentration risk with the sole silo being the asset under operations. It is also susceptible to interest rate risk, although the inflation-linked increase in revenues will mitigate the risk to a major extent.

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 funded 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 one quarter of debt servicing obligations for the project loan, which provides comfort.

Financial flexibility from long concession period and resourceful 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 around 1.4 times. Further, VSPL benefits from the financial flexibility arising out of its strong 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 the 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 limited. 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 the FCI. However, the standard procedures followed by the company and insurance cover mitigates 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 with only one operational silo as an asset base 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 RBI’s repo rate, 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. 2.88 crore (including DSRA for one quarter of debt servicing) as on March 31, 2024, 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 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 five-year average DSCR falling below 1.20 times on a sustained basis. Significant deterioration in the credit profile of 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) 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. 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.

Key financial indicators (audited)

VSPL Standalone	FY2023	FY2024
Operating income (Rs. crore)	7.9	9.0
PAT (Rs. crore)	0.3	0.4
OPBDIT/OI (%)	86.0%	74.2%
PAT/OI (%)	4.3%	4.5%
Total outside liabilities/Tangible net worth (times)	69.6	44.2
Total debt/OPBDIT (times)	7.5	7.6
Interest coverage (times)	1.3	1.5

Source: Company data, ICRA Research; All ratios are as per ICRA's calculations

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Dec 27,2024	Nov 09, 2023	Aug 05, 2022	-
1	Fund-based – Term loan	Long-term	45.00	[ICRA]A (Stable)	[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	Fund-based – Term loan	Nov 2023	NA	FY2039	45.00	[ICRA]A (Stable)

Source: Company data, ICRA Research

[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

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Ritu Goswami
+91 124 4545 826
ritu.goswami@icraindia.com

Mrinal Jain
+91 124 4545 863
mrinal.j@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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ICRA Limited



Registered Office

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



Branches



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