Bankruptcy Risk Analysis

Bankruptcy risk analysis was done around 3.5 years ago during covid period. This covers stocks in the Model Portfolio at that time. Most of the stocks are not part of the portfolio now.

All credit rating reports for the companies is from March 2020 or earlier

1. **Thomas Cook Limited**

- Credit rating
  CRISIL AA-/Negative

- Liquidity
  Strong

  Liquidity remains strong, with cash and cash equivalents of Rs 1,724 crore as on December 31, 2019, against repayment obligation of Rs 73 crore over the 12 months till December 31, 2020. Liquidity is driven by the nature of operations with significant advances from customers. Financial flexibility is enhanced by the ability to contract short- and long-term debt at competitive rates. On a standalone level, TCIL has no long-term debt, and working capital limit has been sparsely utilised. Its subsidiaries are expected to service debt through internal accrual and need-based support from TCIL.

  CRISIL believes TCIL's profitability and cash flow metrics could be materially impacted by continued travel restrictions due to prolonged Covid-19 situation.

- Cash burn rate
  The company has a cash outflow of around 250-300 Crs/ quarter from salaries, overhead and other expenses. The company has used up around 150 crs of surplus cash. Float is likely to drop. With a full stoppage of travel company is likely to lose 200 Crs in Q1 and around 200-250 crs in assuming travel starts picking up end of year slowly. Company has cash and

equivalent of 1700 crs, free cash of 200 crs (50 crs after buyback) and only 75 Crs of re-payment till end of the year.

Assuming 50% drop in topline, company could lose atleast 500-600 Crs this year. Can take on debt of 400-500 crs including loans/ funding from parent to sustain the year. Some recovery could happen in 2021 and 2022 could see return to normalcy

- Break even analysis
  The company has a GPM of around 25%. Company needs 1200-1400 Crs of cash flow for Break even basis. Based on this, the company will achieve cash flow break even with 25% drop in topline. Due to the severe stoppage of travel and tourism, even this is not likely. Q1 could see almost 70% drop and Q2 could at best be 40% of capacity. Normalcy will only return from Q3 onwards.

  In view of this, the company will need close to 800-900 crs of cash flow and will need to take on 500 -700 crs of debt at a minimum to support the operations.

- Long term demand/ Business model impact
  Short term fragility is from complete stoppage of travel/forex, MICE events etc. Long term risks/ fragility comes from OTL and move to online travel, which for now is lower risk and with tightening of capital, could reduce.

2. Quess Corp Limited

- Credit rating
  ICRA - AA (Stable)
- *Liquidity Position*
  Strong
  On an average, the company utilized ~78% of its sanctioned working capital limits as on every month end during the 12-month period ending January 31, 2019. However, the company's peak utilization of its working capital limits is expected to be ~85% of its sanctioned limits given that the salaries are paid out during various dates of the month.In terms of debt repayment, after the Rs. 75 crore repayment of NCD during FY2020, the company would have to repay another NCD of ~Rs. 75 crore during FY2022. in addition to this, the company also has minimal debt repayments in the range of Rs. 30-50 crore every fiscal over the

next three fiscals. This is comfortable compared to the expected cash accruals of the company. Further, ICRA also notes that the company's liquidity profile continues to remain strong on the back of cash balances of Rs. 517 crore as on December 31, 2019.

- Cash burn rate
  Cash on balance sheet can sustain operations for 6 months.

- Break even analysis
  The company has 15% gross margin. Overhead of 250 crs and interest outflow of 35 crs. So a drop of 35% means that the company will have revenue of around 1900 crs and gross profit of 280 crs which will allow the payment of these 'fixed' expenses

  No fragility factor risk from
  - Debt
  - Concentration risk of product, supplier, customer
  - High fixed cost structure

  Back stop could come from Fairfax if needed for liquidity purpose or company can borrow

- Business model risk (money life article)

  - Debt not being reduced: not true. Reduced by 375 Crs in Q2, and 90 Crs in Q3. Management was following through on their commitment. Net debt is 230 crs and plan to reduce further as management is not planning on any further accquisitions
  - Interest cost is high (~14% ?). On higher side, but could include bank charges and possibly short term Wcap loans
  - Asset heavy : as expected due to accquisitions
  - Lower ROE/ROCE than team lease : people services business which is asset lite. Also accquisitions led growth which has suppressed ROC. Finally looser AR terms leading to lower ROC

- Long term demand/ Business model impact
  Long term impact likely to be low. Company is mainly into manpower outsourcing, facilities management and related business. This need for flex staffing and other business services is unlikely to go down.

3. **Edelweiss financial services**

- Credit rating
  CARE AA-; Stable

  Moderate liquidity profile and diversified resource profile. EFSL on a consolidated basis maintained a cumulative positive asset-liability mismatch across the time buckets as on December 31, 2019. At the group level, the company maintained liquidity to the tune of Rs.5450 crore as on December 31, 2019 which comprised of Rs. 3250 crore of cash/bank balance & fixed deposit, Rs.900 crore of investment in government securities and bonds, Rs 1300 crore of investment in mutual funds and bonds. As on December 31, 2019, resource profile (excluding CBLO) is well diversified with NCDs / Sub debt / MLD -58% (FY19: 53%), Bank borrowings-41% (FY19: 34%), Commercial Paper-1% (FY19: 2%) of total borrowings respectively. EFSL has reduced its dependence on the commercial paper in FY19 and continues to maintain the CP borrowings as negligible in FY20 as well

Cash Flow Plan

Particulars (INR Cr)	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Opening Available Liquidity (A)	**10,300**	**9,600**	**9,100**	**10,000**
Inflows				
Asset EMIs and Repayments	2,500	1,800	1,700	1,700
Securitization	500	1,000	1,000	500
Fresh Borrowings	2,000	1,700	2,500	3,500
Total Inflows (B)	**5,000**	**4,500**	**5,200**	**5,700**
Outflows				
Total Borrowings Repayments	3,700	3,000	2,300	4,500
Fresh disbursements	2,000	2,000	2,000	2,000
Total Outflows (C)	**5,700**	**5,000**	**4,300**	**6,500**

- Cash burn rate

The company can survive 3 months based on outflow and existing liquidity.

The cash flow risk is in the credit business which has a liquidity of 10500 crs as of Q3. It has repayment of 2500 crs which if it drops by 50% can be partly balanced by reducing repayments and disbursement. As part of the quarter is already done, asset EMI and repayment is dropping along with repayment

- Break even analysis
  The company has a net interest profit (revenue – interest costs) of around 1200 crs per quarter. Fixed expenses of salary+ OH is around 600 Crs quarter. So revenue can drop 50% and still break even on overheads.

- Long term demand/ Business model impact
  Lending, insurance and capital market activities are unlikely to be impacted in the long run.

  Company has 3 divisions. The EGIA or advisory business earns around 400 crs PAT per year which can be valued at 7000-8000 crs at current earnings. Worst case scenario it can valued at 5000-6000 crs (was valued at higher than this pre-money investment)

  Insurance sub can be valued at 2000 crs atleast. So the company is selling at 50% of these two divisons which are their own subsidiaries.

4. **Mahindra Logistics**
   - Credit rating
     ICRA -AA (Stable) :
     Liquidity position: Strong

     MLL, on a standalone basis, does not have any debt. On a consolidated basis, MLL hada total debt of Rs. 28 crore as on September 30, 2019 (excluding lease liabilities and current portion of long-term debt) consisting of working capital loans andterm loans in subsidiaries. The company's liquidity is strongdue to healthy cash accruals and sizeable cash and bank balance as well asliquid investments of Rs. 98.6crore as on September 30, 2019and largely unutilised bank lines of Rs. 48.0 crore

   - Cash burn rate

90 days

- Break even analysis
  Company has 0 debt. Around 100-125 Crs of cash or cash equivalents. The quarterly burn rate for the company is around 160-180 crs assuming zero revenue.

  The company easily sustain operations operations for a quarter with minimal borrowing and maybe longer with some borrowing. As a result, going out of business risk is much lower.

- Long term demand/ Business model impact
  There is fragility due to high concentration from Auto segment and M&M. As a result, even after the business opens, it will take much longer for volumes and topline/profit growth to come back

5. Cochin Shipyard Limited

- Liquidity risk
  CARE AA+;
  Liquidity: Strong

  CSL had free cash and bank balance of Rs.2,411 crore as on March 31, 2019 (Rs.3,062 crore as on March 31, 2018) and Rs.1,682 cr as on December 31, 2019. The working capital of the company is managed by the advances received from customers (including Navy) and the utilization of fund based working capital limits has been nil the same has been confirmed by the bankers. CSL does not have any long term debt repayment in FY20. CSL reported GCA of Rs.546 crore in FY19 and Rs.553 crore in 9mFY20

- Breakeven analysis
  The company has free cash of 1500 crs which can sustain operations for 3 years without revenue (which is close to impossible). Also demand is contracted and driven by navy/coast guard which does not depend on consumer spending/ corona virus.

- Long term demand/ Business model impact

Budget deficits could impact spending plans on new ships. Company is diversifying into other ship repair and build which needs to be seen. No risk of bankruptcy but growth risk continues as budget deficit increases.

6. KNR Construction Limited

- Liquidity risk
  CRISIL AA-/Stable
  Liquidity: Strong

  Liquidity is strong, supported by healthy cash accrual, unutilised bank lines, and moderate cash and cash equivalents. Cash accrual is expected to remain over Rs 300 crore, sufficient to service annual maturing debt obligation of Rs 20-50 crore over fiscals 2020 and 2022 and meet company's capex and incremental working capital requirement. Fund-based bank limit utilisation has historically remained low at less than 20% and was at 14% for the 12 months through May 2019. Non-fund-based facilities are primarily used to meet working capital requirement. Average utilisation of the non-fund based facilities was 65% during the 12 months through May 2019. Further, established relationship with suppliers and customers result in a healthy payments cycle and hence lower deployment of own funds. The cash and cash equivalents balance was Rs 31 crore as on June 30, 2019, of which around Rs 16 crore was unencumbered. ***Additionally, the company also benefits from the track record of promoters bringing in funds into the operations in the form of unsecured loans. They currently stand at Rs 205 crore as on June 30, 2019****.*

- Outlook
  Stable

  CRISIL believes KNRCL will continue to benefit from its healthy business risk profile supported by its established market position and strong order pipeline. Financial risk profile will remain strong backed by lower dependence on external borrowing and adequate working capital cycle

  Company has 200 crs debt at standalone entity which is planned to be re-paid via the sale of KNR walayar of 350+ crs. At the current point this cash can be partly held or promoter debt can be put on hold and cash will be available for use (at an opportune time).

- Cash burn rate
  2 Qtrs

- Break even analysis
  The company has a cash burn rate of around 100 crs/ qtr and its top line is the near term is not impacted by general consumer demand. Once the stoppage is lifted, the company should be able to get back to normal cycle, though it will have some loss from stoppage of work. It can sustain cash burn rate for 1 quarter. Also, construction may be re-started.

- Long term demand/ Business model impact
  In the long run, the company does not have direct risk from this event. Existing concentration risk from NHAI remains. Further risk from govt reducing infra spending due to Fiscal deficit.

7. **Avanti Feeds**

- Liquidity risk
  IND AA

  Liquidity Indicator - Adequate: At FYE19, AFL had a healthy cash balance of INR5,892 million (FYE18: INR5,599 million; FYE17: INR3,700 million). The company's term debt repayment requirement is minimal. Cash flow from operations (CFO) continued to increase to INR2,018 million in FY19 (FY18: INR2,898 million; FY17: INR2,825 million), owing to increased scale and robust working capital management. The CFO is sufficient to fund AFL's dividend payments and modest capex requirements. The company uses its fund-based facilities sparingly with the fund-based facilities remaining unutilised in FY19, while the average utilization for Avanti Frozen Foods during the 12 months ended November 2019 was about 4%. Ind-Ra expects AFL to continue to generate strong free cash flows in FY20 and FY21, given modest capex requirements and stable dividend policy.

- Break even analysis
  The company had a GM of 23% and needs to make 340 crs per year in cash flow to break even. The company has close to 1000 crs of cash and keep doors open for 2 years with 0 revenue. It can also break even on operations with a 40% drop in revenue.

Moratorium being lifted

- Long term demand/ Business model impact
  In the long run, the main risk is drop in demand for shrimp/shrimp feeds which may not happen.

8. Vinati organics

- Liquidity risk
  CARE AA; Stable

- *Liquidity Profile*

  VOL has strong liquidity indicators, marked by very low utilization of its working capital limits. Its liquidity position is further supported by healthy cash accruals, absence of long term debt repayments and a healthy cash and investments of Rs.98.34 crore as on March 31, 2019.

- Break even analysis
  The company has a high GM of 50-60% and needs to make 180 crs per year in cash flow for operations (support overheads). Company has 210 crs of cash and can keep doors open for one year without any revenue. Also has no debt, so can take on debt to keep operating. Finally, revenue can drop by 50% and still the company can break even

- Long term demand/ Business model impact
  In the long run, the main risk is drop in revenue and profit from a single product risk of ATBS. However ATBS has diverse applications and hence the risk is mitigated. Company is also expanding into Butyl phenols and must have more products in the pipeline.

9. NESCO

- Liquidity risk
  No rating since 2017 and withdrawn as per request of the company.
  The company has 500 Crs+ of cash to support operations and even the building activity (once migrant labor is back). This can sustain operations for 1+ years

- Break even analysis

The company has 120-140 crs profits/cash flow from the commercial RE segment. It also has around 100 crs of operational expenses. As a result, a complete shutdown of BEC, would still mean that the company can break even operationally and support expenses. We work is a tenant and losing this tenant could result in loss of some revenue. However current quarterly run is 50 Crs for the commercial segment and so loss of this tenant would still mean cash flows of 150 Crs+ which should be sufficient.

- Long term demand/ Business model impact
  The medium-term risk is the time it will take for conferences and other meetings to come back to its pre-CV levels which could take 1-2 years. In the long run, demand should come back once the vaccine is available

10. AIA engineering

- Liquidity risk:
  CRISIL AA+/Stable
- *Liquidity: Strong*

  AIA has strong liquidity, with cash and marketable securities of about Rs 1100 crore as on March 31, 2019. The fund-based bank limits remain largely unutilised. Company is expected to generate healthy cash accrual of above Rs 350 crore over the medium term, sufficient to cover the annual capex requirement of Rs 250 crore. Company will maintain strong liquidity, supported by healthy cash accrual notwithstanding the ongoing capex

- *Outlook*
  Stable

  CRISIL believes the business risk profile will continue to benefit from the company's strong market position and diversified revenue profile. Furthermore, the financial risk profile is likely to remain robust over this period, supported by healthy cash accrual and large liquid surplus, notwithstanding the ongoing capex.

- Break even analysis
  Company has a high OPM of 25-30%. Needs around 250 crs of cash flow per year to maintain operations. Company has 900+ crs of cash and can maintain operations without revenue for 1+ year. So no risk of going bankrupt.

Company can bear a drop of 30% topline and still break even on overheads and sustain operations.

- Long term demand/ Business model impact
  Long term risk continues to be impact of commodity prices and slowdown in mining. The social distancing impact is less in mining and hence company will face lower impact.

11. Manappuram finance

- Liquidity risk
  CRISIL AA/Stable

- *Liquidity Strong*

  Liquidity is strong, reflected in an inherently well-matched ALM profile. MAFIL did not witness any substantial impact on its ability to raise resources during the last twelve months. Disbursements in the third and fourth quarters of fiscal 2019 (that is, during the period when NBFCs faced challenges) were higher than that in the corresponding period of the previous fiscal. The standalone ALM profile is well matched with no negative mismatches across all buckets as on December 31, 2019. CPs were at Rs 2475 crore (around 24% of standalone borrowings) as on December 31, 2019. The CPs are generally staggered such that not more than Rs 1,500 crore is due for repayment in a particular month. Additionally, about 20% of the portfolio does not get repledged and these collections will also aid liquidity.

  On standalone basis, it has long term debt repayments of Rs 307 crore and commercial paper repayments of Rs 2350 crore from March 15, 2020, to June 30, 2020. Against the same, the collection is about Rs 14640 crore during the same period; of which about 80% gets repledged. Additionally, the company has cash and bank balances of Rs 1610 crore and unutilized bank lines of Rs 1688 crore as on February 28, 2020. For the period of nine months ended December 2019, 12 month average monthly disbursement was around Rs 12013 crore and collection was around Rs 11689 crore during this period

- *Outlook*
  Stable

CRISIL believes MAFIL's capitalisation and asset quality will remain strong supported by its gold loan business. The strong earnings will also provide support as the company diversifies into other asset classes and scales up its non-gold business.

- Break even analysis
  Manappuram has quarterly cash burn rate of around 300 crs. At this burn rate, the company can sustain its burn rate at 50% topline level. This would mean that a 45 day lockdown would still mean that the company sustain its operational burn rate without needed cash. Beyond this, company will have negative cash flow from operations.

- Long term demand/ Business model impact
  Lending against gold and other forms of lending could be hurt due to NPA (especially the MFI division). However reduction in competition should help

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