

Change in Rating Symbol

September 16, 2019

TAQUITO LEASE OPERATORS PRIVATE LIMITED

Total Instruments Rated	Rs. 300.00 Cr
Long Term Rating	ACUITE AA- (CE)/ Stable

Pursuant to SEBI Circular SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019 there is a revision in the rating symbol. The change to 'CE' suffix / removal of 'SO' suffix for the rated instrument(s) is not to be construed as any change in the rating or Acuite's credit opinion on the said instrument(s). The previous rating rationale is appended herewith for reference.

For the background note, please visit: [https://www.acuite.in/pdf/General%20Communication%20For%20Website%20\(1\).pdf](https://www.acuite.in/pdf/General%20Communication%20For%20Website%20(1).pdf)

Criteria for assigning ratings with 'SO' suffix: <https://www.acuite.in/view-rating-criteria-48.htm>

Criteria for assigning ratings with 'CE' suffix: <https://www.acuite.in/view-rating-criteria-49.htm>

Press Release

TAQUITO LEASE OPERATORS PRIVATE LIMITED

May 23, 2019

Rating Reaffirmed



Total Instruments Rated*	Rs. 300.00 Cr.
Long Term Rating	ACUITE AA- (SO)/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reviewed the long-term rating of '**ACUITE AA- (SO)**' (read as **ACUITE double A minus structured obligation**) to the non-convertible debenture (NCD) issue of Rs. 300.00 crore to TAQUITO LEASE OPERATORS PRIVATE LIMITED (TLPL). The outlook is '**Stable**'.

Incorporated in 2012, TLPL is an entity formed for the purpose of acquiring moveable/immoveable fixed assets required in large format retail stores (assets such as building and permanent improvements, plant & machinery, machinery spares, tools and accessories, furniture and fixtures, electric fittings and installations, computer and IT equipment among others) and providing them on operating lease basis.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of TLPL and factored in the benefits emanating from the presence of a strong counterparty, FRL. The promoters of FRL have executed undertaking for timely payment of lease rentals under the lease arrangement. Besides the support from FRL, Acuité has also considered credit enhancement in the form of structured payment mechanism and waterfall in Escrow account. Any change in the credit profile of FRL will be a key rating sensitivity.

Key Rating Drivers

Strengths

• Strong credit profile of counterparty FRL

The rating factors in strong credit profile of TLPL's lessee i.e. Future Retail Limited (FRL) (ACUITE A1+) for commercial paper. FRL is the flagship company of the Future Group engaged in the retail of household and consumer products through departmental store facilities under various formats in India. It enjoys a leading position in organised retail with pan India presence across multiple formats including Big Bazaar, FBB and Easy day. Revenue share from apparel segment stood at ~36%, ~32% from staple segment (Food segment) and ~32% from Non – food segment for FY2018. As on December, 2018, FRL has 1,444 stores spread across 15.90 million square feet in 409 cities.

The business risk profile is also supported by the operational advantages due to the established backend infrastructure provided by Future Enterprises Limited (FEL), the entity that owns most of the infrastructure required for retail operations. In addition to their demonstrated acumen in organised retail trade, the promoters, Mr. Kishore Biyani and Mr. Rakesh Biyani have an established track record of raising capital from equity markets, private equity, and other sources. For Q3 ending 31 December 2018, FRL reported net profit after tax (PAT) of Rs.201.43 crore on operating income of Rs.5,301.07 crore. The tangible net worth stood at Rs.2,566.33 crore as on 31 March, 2018. For Q3 ending 31 December 2018, FEL reported net profit after tax (PAT) of Rs.1.54 crore on operating income of Rs.1,112.94 crore. The tangible net worth stood at Rs.4,032.52 crore as on 31 March, 2018.

Acuité believes that TLPL will continue to receive strong support from the Future Group given its strategic importance to the retail operations. Additionally, rating also factors in support in the form of personal undertakings provided by the promoters (Mr. Kishore Biyani, Mr. Vijay Biyani and Mr. Rakesh Biyani) for the NCDs for assuring performance of lessee which supports the credit profile of TLPL. The redemption of these debentures will be effected through sale of the underlying assets to FEL. The commitments to buy these assets at the agreed price will be disclosed in the financial statement of FEL.

- **Structured payment mechanism with waterfall in escrow account and obligation to buy lease assets**

TLPL has entered into lease agreements with FRL for equipment/movable assets leasing. These equipment have been refinanced by way of issue of non-convertible debentures (NCD) (Previously were financed through term loans of Rs.140.00 crore and Rs. 200.00 crore). The NCD issue has an escrow mechanism with waterfall arrangement with priority for regulatory payments and debt (interest + principal) servicing. The balance can be utilised for other purposes.

Besides this, the NCD issue terms include structured payment mechanism for timely servicing of debt; wherein, FRL will ensure that the account is adequately funded to meet scheduled interest payment obligation at T-1 day (T being due date). Further, as per the conditions stipulated, Future Enterprises Limited (FEL) shall have the obligation to buy the assets and pay the amount in four equal quarterly installments beginning from the end of first quarter from the completion of five years from the deemed date of allotment of NCDs. The right in the assets shall be transferred only on the receipt of final installment by FEL.

Further, as per the put option, in case FEL expresses its inability to buy the assets, FRL shall have put option to compulsorily buy the assets from the company at the agreed price. The agreed price should not be less than outstanding debt obligations (interest and principal) and other statutory dues.

- **Comfortable debt servicing ability**

TLPL has comfortable debt servicing ability with adequate lease rentals for payment of interest and principal on its debt servicing obligation. The interest coverage ratio (ICR) stood at 2.42 times and debt service coverage ratio (DSCR) stood at 1.12 times in FY2018. The DSCR is expected to be maintained at a minimum of 1.10 times during the tenor of the NCD.

Weaknesses

- **Susceptibility of future cash flows of TLPL to the counterparty's performance under the lease arrangements**

The net worth of TLPL stood at Rs. 110.85 crore as on 31 March, 2018. The gearing (debt to equity ratio) stood at 2.40 times (PY: 2.75 times) as on 31 March, 2018. The total debt of Rs.265.63 crore as on 31 March, 2018 comprised term loan which have been repaid and substituted by issue of NCDs. TLPL presently derives most of its cash flows from the existing lease arrangement and has limited cash flows from its trading activity. However, out of the total revenue of Rs. 298.69 crore, ~Rs.205.17 crore of revenue is generated from trading activity. The company does not have major investments/ non-core assets that can generate liquidity. Against this backdrop, the company's ability to meet its obligations under the NCDs will be dependent on the continued and timely flow of rentals under the lease arrangement. The occurrence of events such as delays in receipt of rentals, or early exits/renewal by lessee may result in disruption of cash flow streams, thereby affecting the debt servicing ability of TLPL.

Liquidity Position:

The Liquidity profile of TLPL will continue to be moderate over the near term and the same is also supported by the promoter group's ability for infusion of funds that has been reflected in the past from repayment of maturing debt obligations.

Outlook: Stable

Acuite believes that the outlook for TLPL will remain 'Stable' over the medium term on account of the presence of a strong counterparty, structured payment mechanism and steady flow of rentals from the lease agreement thereby leading to comfortable debt servicing. The outlook may be revised to 'Positive' if the company generates healthy net cash accruals while improving the liquidity position. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve the required cashflows thereby affecting the debt servicing ability of TLOPL.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	298.69	125.88	71.29
EBITDA	Rs. Cr.	45.91	47.69	39.01
PAT	Rs. Cr.	0.09	0.86	0.20
EBITDA Margin	(%)	15.37	37.88	54.72
PAT Margin	(%)	0.03	0.68	0.28
ROCE	(%)	4.99	6.95	9.65
Total Debt/Tangible Net Worth	Times	2.40	2.75	1.97
PBDIT/Interest	Times	2.42	2.38	2.20
Total Debt/PBDIT	Times	5.79	6.40	3.03
Gross Current Assets (Days)	Days	10	113	127

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.htm>
- Criteria for Securitised Transactions- <https://www.acuite.in/view-rating-criteria-29.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17-May-2018	Non-convertible debentures	Long Term	255.00	ACUITE AA-(SO) / Stable (Assigned)
	Non-convertible debentures (Proposed)	Long Term	45.00	ACUITE AA-(SO) / Stable (Assigned)
16-Sep-2017	Non-convertible debentures (Proposed)	Long Term	300.00	ACUITE Provisional AA- (SO)/ Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Non-convertible debentures	Not Applicable	Not Applicable	Not Applicable	255.00	ACUITE AA-(SO) / Stable (Reaffirmed)
Non-convertible debentures (Proposed)	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE AA-(SO) / Stable (Reaffirmed)

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About Acuite Ratings & Research:

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