Press Release

Daksha Infrastructure Private Limited

December 02, 2020

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 225.00 Cr.
Long Term Rating	ACUITE A-/ Outlook: Stable (Reaffirmed and Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A-**' **(read as ACUITE A minus)** on the Rs.222.43 crore bank facilities of Daksha Infrastructure Private Limited (DIPL). The outlook is **'Stable'**.

Also, Acuité has assigned the long-term rating of '**ACUITE A-**' **(read as ACUITE A minus)** on the Rs.2.57 crore bank facilities of DIPL. The outlook is **'Stable'**.

About the Company

DIPL is a part of Pune-based 'Suma Shilp' Group initially promoted by Mr. Anand Naralakar. Mr. Pramod Naralakar, son of Mr. Anand Naralakar, currently oversees the group's operations. DIPL has three revenue verticals viz. Real estate, Renewable energy & treasury. Under the real estate vertical, the company derives revenues from lease rentals. DIPL owns commercial properties at Westend Center I, II & III, consisting of three buildings in Aundh, Pune – Building B, C and D wing having total leasable area of 4.30 LSF. The commercial property is fully occupied. Under the renewable energy vertical, DIPL has 9 windmills of installed capacity of 7.65 MW (Megawatt) at Jath site in district Sangli (Maharashtra) and a solar project located in Mandrup village of Solapur district. The windmills have been commissioned and are operating since October 2011 achieving a PLF factor of around 17 to 20 per cent. The solar project has a capacity of 2 MW located in Mandrup village of Solapur district at Maharashtra. The solar project is operational since FY2014. Under the treasury vertical, the company has significant investments in mutual funds and other liquid investments.

Analytical Approach

For arriving at the rating, Acuité has considered the standalone credit profile of DIPL. Further, Acuité has considered credit enhancement in the form of DSRA equivalent to two months of principal installments and escrow mechanism with a well-defined waterfall mechanism while arriving at the rating. Also, Acuité has also considered a credit enhancement in the form of liquid investments of Rs.50.00 crore.

Key Rating Drivers

Strengths

- **Experienced management and established revenue streams from real estate division**
  The group chairman, Mr. Pramod Naralakar, is a civil engineer. Under his leadership since 1983, the group has developed projects ranging from bridges and flyovers to self-contained residential townships, IT parks, commercial and retail projects in Pune. Also, DIPL benefits from its strategically located property in Aundh (Pune). DIPL has demonstrated the ability to attract and retain high quality clients. Further, the company is developing a new commercial building comprising of a shopping mall and IT Park, which will further boost revenues from this segment.

- **Debt servicing supported by debt service reserve account (DSRA) and credit enhancement in the form of liquid investments**
  DIPL has refinanced some of its existing term loans in FY2018 and continues to maintain DSRA as per the stipulation. DSRA is equivalent to two months of installments. Besides DSRA, the company also has a credit enhancement in the form of liquid investments of Rs.50.00 crore. In case of any shortfall in DSRA, the same shall be replenished to its original levels within "T+3" working days, where 'T' is the day on which the shortfall is occurred, by way of liquidation from the liquid investments. Further, the

terms of sanction for the term loan stipulate an escrow mechanism through which rent receipts are routed and used for payment as per the defined payment waterfall. Surplus cash flow after meeting tax expenses, operating expenses, debt servicing obligation, can be utilised for acceleration debt repayment.

Weaknesses

- **Declined profitability margin**
  The profit after tax (PAT) margin of the company stood at 0.13 per cent for FY2020 as compared to 5.75 per cent for FY2019. In FY2020, the company has provided for notional loss on account of mark to market decrease in the closing stock of shares and investment. The company has considered closing stock at cost or market price whichever is lower. On account of this, the company has booked a notional loss of about Rs. 6.78 crore, which has been recognised in the books. However, the loss being notional has not impacted the liquidity of the company.

- **Customer concentration risk**
  In the event of non-renewal by existing lessee, the future cash flows will be impacted, thereby translating to weakening of debt protection indicators. A large IT tenant contributes to more than 60 per cent of the total lease rentals. In the event of the company deciding to move out or seeking a renegotiation, the rentals are likely to be impacted. Timely renewal/leasing at similar or better terms than the existing agreements will remain a key rating sensitivity factor.

- **Limited track record of operations in the capital markets business**
  Apart from real estate and leasing business, DIPL started its treasury operations in FY2017 from its investible surplus. The company has availed the services of professionals to help in asset allocation and various investment decisions. Since a part of the liquid investments will be deployed in equity and equity linked securities, the company will be prone to the vagaries of the capital market. While the company officials don't anticipate an equity allocation beyond 25 per cent, the performance of the treasury division and its ability to generate return commensurate with risk is yet to be examined. Against this background, the return from treasury division will be volatile and it will be difficult to derive significant comfort from liquid investments in the absence of track record of operations.

Rating Sensitivity

- Significant delays in payment of lease rentals by the counterparty
- Timely renewal of lease agreement

Material Covenants

None

Liquidity Position – Adequate

DIPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of ~Rs.1.65 crore to Rs.14.73 crore during the last four years through 2017-20, while its maturing debt obligations were in the range of ~Rs. 5.38 crore to Rs. 12.67 crore over the same period. The cash accruals of the company are estimated to remain around ~Rs.6.69 crore to 12.45 crore during 2020-22, while its repayment obligation is estimated to be in the range of ~Rs.6.27 crore to Rs.11.77 crore. The company's cash flows are expected to remain enough to fund the debt payments in FY2021 and FY2022. However, the presence of DSRA along with escrow mechanism with a well-defined waterfall mechanism provides an additional cushion to the liquidity. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of steady cash flows from lease rentals.

Outlook: Stable

Acuité believes that DIPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and steady cash flows from the real estate vertical. The outlook may be revised to 'Positive' in case the company generates healthy net cash accruals while improving the liquidity position. Conversely, the outlook may be revised to 'Negative' with deterioration in the financial profile on account of decline in cash accruals or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	172.09	231.84
PAT	Rs. Cr.	0.23	13.33
PAT Margin	(%)	0.13	5.75
Total Debt/Tangible Net Worth	Times	2.54	2.60
PBDIT/Interest	Times	1.06	1.72

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition -https://www.acuite.in/view-rating-criteria-52.htm
- Infrastructure Entities -https://www.acuite.in/view-rating-criteria-51.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-Sept-2019	Term Loan	Long Term	78.51	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	146.49	ACUITE A-/Stable (Reaffirmed)
18-Jun-2018	Term Loan	Long Term	77.50	ACUITE A-/ Stable (Assigned)
	Term Loan	Long Term	147.50	ACUITE A-/ 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
Term Loan	19-Feb-2018	Not Applicable	15-Mar-2032	76.97 (Reduced from Rs.78.51 crore)	ACUITE A-/Stable (Reaffirmed)
Term Loan	07-Mar-2018	Not Applicable	15-Mar-2036	145.46 (Reduced from Rs.146.49 crore)	ACUITE A-/Stable (Reaffirmed)
Term Loan	03-Oct-2017	Not Applicable	15-Oct-2033	2.57	ACUITE A-/Stable (Assigned)

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About Acuité Ratings & Research:

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