

Press Release

Orbit Projects Private Limited

January 08, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 45.00 Cr.
Long Term Rating	ACUITE A- (SO)/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE A- (SO)** (read as ACUITE A minus structured obligation)' to the Rs. 45.00 crore bank facilities of Orbit Projects Private Limited (OPPL). The outlook is '**Stable**'.

OPPL is one of the real-estate arms of the Emami Group. OPPL is a subsidiary of Raj Abasan Private Limited, 60 percent of which is held by Emami Estates Private Limited which in turn is held by various members of the Agarwal and Goenka families, promoters of the Emami group.

The company primarily focuses on developing residential real estate projects in Kolkata (West Bengal). OPPL has completed six residential projects exceeding 5 lakh sq. ft. in prime locations across Kolkata till date. At present, the company is undertaking two new projects spread over almost 1.65 lakh sq. ft.

Analytical Approach

Acuité has considered standalone business and financial risk profile of OPPL. The expectation of support from Emami Group and credit enhancement in the form of pledge of shares of Emami Limited has been factored in to arrive at the final rating.

Key Rating Drivers

Strengths

- **Rating driven by pledge of shares of Emami Limited and expectation of continued support from the Emami group**

The bank facilities of OPPL are secured by the pledge of fully paid up unencumbered shares of Emami Limited held by Diwakar Viniyog Private Limited (DVPL). The pledged shares shall provide a security cover of 1.30 times during the entire tenor of the facility. The sanctioned terms reflect the timelines for funding of the account and top up. Promoters are required to top-up the pledged shares in case of fall in share prices resulting in decline in the cover of 1.30 times. Real estate has been identified as one of the focus area by the Emami Group. It has provided pledge of shares for real estate projects, in addition to other businesses of the group. Further, rating also factors in support extended by the Group to the company in the form of unsecured loans.

DVPL, incorporated in 1998 and promoted by Emami Group, is a non-banking financial company registered with Reserve Bank of India under Section 45-IA of the Reserve Bank of India Act, 1934. The company is engaged in the business of lending and investment in shares & securities. DVPL has also extended its corporate guarantee to OPPL.

The continuous support from the Emami group will be a key rating sensitivity. The rating also factors in the adherence to the security cover against pledge of shares to be maintained at all times.

- **Long track record and established position of Emami Limited**

The Emami group, promoted by Mr. R S Agarwal and Mr. R S Goenka, has diverse business interests, including FMCG, newsprint paper, writing instruments, edible oil and cultivation, biodiesel, hospitals, real estate, retail and cement, among others. Currently, the promoter group owns about 72.74 per cent stake in Emami Limited. 55.88 per cent of the promoter holding as on September 30, 2018 is unencumbered.

Emami manufactures more than 300 ayurvedic, personal and healthcare products that are marketed across India and in more than 60 countries. Its main brands include Navratna, Boroplus, Zandu, and Fair and Handsome. Emami added prominent ayurvedic brand, Zandu, to its portfolio when it acquired around 70 percent stake in Zandu Pharmaceuticals Works Limited in 2008 for Rs.710 crore. Headquartered in Kolkata, the company has presence in 60 countries with eight overseas subsidiaries, 3250 distributors, 6500 sub-distributors with direct coverage through 8.5 lakh retailers and an indirect coverage via 43 lakh retailers.

Emami Limited reported net profit of Rs.306.30 crore against operating income of Rs.2533.98 crore in FY2018. The net worth of Emami Limited stood at Rs.2014.18 crore and debt-to-equity at 0.16 times as on 31 March, 2018. The total market capitalisation stood at Rs. 19,176.49 crore as on 8 January, 2019.

Acuité believes that Emami group will benefit from its established position in FMCG and other core sectors and proven strategy of scaling up operations through a mix of organic and inorganic initiatives.

Weaknesses

- **Project execution risk**

The company is developing two residential projects (Orbit Ekam and Orbit Cosmos) with a total project cost of Rs. 72.83 crore and has incurred Rs. 8.96 crore as on September 30, 2018. The projects are at nascent stage of execution with only ~7 percent (i.e Rs. 3.82 crore) of the total construction cost incurred (Rs.51.97 crore) against which Rs.0.31 crore of customer advances had been received till September 30, 2018. Therefore, there exists a very high execution risk and completion of the project within the estimated timeline remains a key rating sensitivity.

- **Susceptibility to real estate cyclical and regulatory risks**

OPPL is exposed to the risk of volatile prices on account of frequent demand supply mismatches in the industry. The Real Estate sector is under high stress on account of large amounts of unsold inventory and high borrowing costs. This is primarily attributable to the slowdown in demand, tight liquidity conditions for real estate sector, risks and cyclical inherent in the sector may result in volatility in both saleability and realisations, and hence, impact the cash flows. Introduction of RERA and GST have also impacted demand as buyers adopt a 'wait and watch' attitude, increasing the funding challenges for developers. A sustained slowdown in funding to the wholesale segment over the near to medium term may adversely impact the developers' ability to complete the existing projects in a timely manner as well as launch new projects.

- **Risk arising from adverse movement in stock prices**

The rating is based on the structured payment mechanism and pledge of shares of Emami Limited. As per the sanctioned terms the borrower has to maintain minimum asset of 1.3x times of the facility amount. The ability of the promoters to maintain the share pledge asset coverage at all points in time is central to rating. Since the stock market is prone to volatility, occurrence of events such as slowdown in FII flows, sharp depreciation in domestic currency, Inflation outlook and other such macroeconomic events, political events, can cause decline in stock prices. Additionally, the company specific factors can also influence movements in stock prices. Any sharp and continuous decline in share prices could potentially lead to challenges in adhering to the covenants.

Outlook: Stable

Acuité believes that OPPL will maintain a 'Stable' outlook over the medium term owing to its association with Emami Group and the continuous support from the group. The outlook may be revised to 'Positive' in case the company achieves significantly higher than expected customer advances and achieves project execution as per schedule. Conversely, the outlook may be revised to 'Negative' in case of slower than expected customer advances, in case of delay in project execution, delays in receipt of timely support from promoters of the Emami Group or in case of sharp decline in the available asset cover.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	18.78	9.60	89.77
EBITDA	Rs. Cr.	23.28	16.99	25.06
PAT	Rs. Cr.	-0.06	0.21	6.73
EBITDA Margin	(%)	123.97	176.97	27.91
PAT Margin	(%)	-0.33	2.20	7.50
ROCE	(%)	12.64	11.28	35.48
Total Debt/Tangible Net Worth	Times	20.38	15.70	14.06
PBDIT/Interest	Times	1.01	1.03	1.72
Total Debt/PBDIT	Times	8.35	8.72	5.20
Gross Current Assets (Days)	Days	4085	6582	674

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>
- Real estate entities - <https://www.acuite.in/view-rating-criteria-41.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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 loans	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A- (SO) / Stable
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A- (SO)/ Stable

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About Acuité Ratings & Research:

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