Press Release

HMDA Ancon Kcp Logistic Park Private Limited

July 02, 2020

Rating Downgraded

Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	ACUITE B+/ Outlook: Stable (Downgraded from ACUITE BB-/Stable)
Short Term Rating	ACUITE A4 (Downgraded from ACUITE A4+)

** Refer Annexure for details*

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE B+**' **(read as ACUITE B plus)** from **ACUITE BB- (read as ACUITE double B minus)** and short term rating to **'ACUITE A4' (read as ACUITE A four)** from **ACUITE A4+ (read as ACUITE A four plus)** to the Rs. 15.00 crore bank facilities of HMDA Ancon KCP Logistic Park Private Limited (HMDA). The outlook is **'Stable'**.

The rating is downgraded on account of stretched liquidity position and proposed capex for warehouse-2 would deteriorate the capital structure of the company and nascent scale of operations. The rating is further constrained by the market risk associated with the vacant space in the ongoing and recently developed phase. Timely leasing at favourable rates is critical towards achieving comfortable credit position in future. The execution and funding plans related to such upcoming phases might have a bearing on the overall credit profile of the company. However the project completed for phase-1 is six months ahead than expected COD of March 2020. The project location has good accessibility to road infrastructure and proximity to industrial areas, the market dynamics for an industrial and Logistics Park in the geography are yet to completely pan out. The leasing was affected to a limited extent by the Covid19 pandemic and the consequent restrictions India imposed on various business activities. However the rating continues to factor in the attractive location of the project due to its good connectivity and proximity to Hyderabad, Telangana and technical and marketing expertise of the management in the warehousing space.

HMDA, incorporated in 2011, is promoted by Mr. Rajashekar Gupta Vodela. It is a special purpose vehicle promoted by M/S Ancon Design (Proprietorship firm of Mr Rajashekar Gupta), and M/S KCP Projects Limited (KCP) which secured the logistics park project under design, build, finance, operate and transfer (DBFOT) from Hyderabad Metro Development Authority. The company is engaged in development, leasing and maintenance of warehouse/industrial/logistics Park in Hyderabad, Telangana The logistics park comprises various kinds of services such as Truck Parking, Warehouse Admin & Commercial Block, Fuel Station, and Automobile Station and Healthcare Centre among others. It is spread across 22 acres at Mangalapally Village in Ranga Reddy District (Telangana).

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of HMDA to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced promoters**

  Mr. Rajashekar Gupta Vodela has 99.94 percent shareholding through Ancon Design, and rest is held by KCP Projects Ltd. HMDA enjoys the expertise from both the promoter groups; Mr. Rajashekar carries an experience of about two decades in Infra development, besides nearly four decades of experience in construction and infra development of KCP. Mr. Rajashekar manages the project implementation activity. Owing to experienced management, project completed earlier than expected in October 2019 against original envisaged COD of March 2020 and helped develop deep understanding of the local market dynamics and healthy relations with customers assuring regular cash flows. The scale of operation has been moderate with turnover of Rs. 1.84 crore in fiscal

2020 (provisional) for six months.
Acuité believes that the increasing flow of commercial vehicles, demand for warehouses, retailing / e-commerce activities, restriction on entry of vehicles into the city are expected to support the demand and ramp up its scale of operations early break-even.

- **Attractive project location with strong connectivity and proximity to industrial hub**
  The project is located at Mangalapally Village in Ibrahimpatnam Mandal Ranga Reddy District (Telangana), which is easily accessible to Outer Ring Road (ORR) Junction on Nagarjuna Sagar Highway about 200 m from and about 30 KM from Hyderabad. The location is also attractive due to its proximity to Rajiv Gandhi International Airport at about 20 KM. The subject site can partly serve the freight logistics requirement of both NH9 corridor towards Vijayawada and NH7 corridor towards Bangalore.

Weaknesses

- **Below-average financial risk profile:**
  The company has a below average financial risk profile marked by moderate net worth, high gearing and moderate debt protection metrics. The net worth of the HMDA stands moderate at Rs.4.14 crore as on March 31, 2020 (provisional). The gearing (debt-equity) and total outside liabilities to total Net Worth (TOL/TNW) stood at 4.18 times and 5.18 times respectively as on 31 March, 2020 (provisional). The debt protection metrics Interest coverage ratio (ICR) is stands at 1.30 times and net cash accruals to total debt (NCA/TD) stands 0.02 times in FY2020 (provisional). Its debt-to-EBITDA stands 13.30 times with a DSCR of 1.30 times for FY2020 (provisional). Further, the company plans to construct warehouse-2 with an outlay of Rs.9.50 crore, expected to be funded through debt of around Rs.3.50 crore and the balance through equity.
  Acuité believes the financial risk profile of the HMDA will remain below average over the medium term on account of large ongoing debt funded capital expenditure plan and ability of the company scale of its operations with surplus accruals in order to service its debt obligation in timely manner will be critical.

- **Risks associated with the upcoming phase of the project**
  The company is exposed to market risk associated with the vacant space in the ongoing and recently developed phase. Timely leasing at favourable rates is critical for the company. There has been an increase in competition in the industrial warehousing segment in India. The company is yet to finalize the tenants for the remaining area which exposes the company to market risks. The execution and funding plans related to such upcoming project might have a bearing on the overall credit profile of the company. Company exposed to some degree of project execution risks though the company possesses the requisite expertise to build and lease out industrial spaces. Timely completion of the project, and leasing of the entire warehouse space at sustainable lease rental rates and to attract clients with sound credit risk profiles will be crucial in maintaining adequate liquidity. However, this risk is mitigated by the strategically well-located warehousing facilities.

Liquidity Position: Stretched

HMDA's cash accruals are estimated to remain around Rs.1.00-2.50 crore during 2021-23, while its repayment obligation are estimated to be around Rs. 3.50-4.00 crore. Term loan repayments are scheduled to start from October, 2020. HMDA maintains unencumbered cash and bank balances of Rs.0.72 crore as on 31 March 2020 (provisional) as part of DSRA. Given the capex plans and equity commitments for the same, the liquidity position of the company remains stretched. With debt repayments also starting in the short term, Acuité estimates the projected cash flow cover to remain subdued and hence timely support from the promoter remains important.

However, Acuité believes that strong promoter group and their financial flexibility are expected to support the liquidity over the medium term.

Rating Sensitivities

- Scale of operations increase substantially with stable profitability and improving DSCR
- Considerable delays in lease tie-ups and lower than expected
- The company is required to improve its net-worth and correct its capital structure by bringing in additional equity, which is a key rating sensitivity

Material covenants

None

Outlook: Stable

Acuité believes that the outlook on HMDA will remain 'Stable' over the medium term on account of its experienced promoters. The outlook maybe revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability, while improving its liquidity position with better than the expected cash accruals. Conversely, the outlook may be revised to 'Negative' in case of unanticipated delays in lease payments lead to cash flow mismatches, or if occupancy reduces, adversely affecting debt servicing capability or larger-than-expected debt-funded capital expenditure or less-than-expected accruals leading to stretch in its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (provisional)	FY19(Actual)
Operating Income	Rs. Cr.	1.84	-
PAT	Rs. Cr.	-0.15	0.01
PAT Margin	(%)	-8.28	-
Total Debt/Tangible Net Worth	Times	4.18	10.56
PBDIT/Interest	Times	1.30	5.67

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Entities In Services Sector -https://www.acuite.in/view-rating-criteria-50.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	Size of the Issue (Rs. Cr.)	Ratings/Outlook
30-Apr-2019	Term Loan	Long Term	11.50	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	3.50	ACUITE A4+ (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 loans	31-05-2017	Not Applicable	20-12-2024	11.60	ACUITE B+ /Stable (Downgraded from ACUITE BB- /Stable)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	3.40	ACUITE A4 (Downgraded from ACUITE A4+)

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