

Press Release

Bhagwat Chattels Private Limited

May 06, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 86.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BBB**' (**read as ACUITE Triple B**) on the Rs. 86.00 Cr bank facilities of Bhagwat Chattels Private Limited (BCPL). The outlook remains '**Stable**'.

BCPL is a Hyderabad based entity, incorporated in the year 2013, by Mr. Pramod Kumar Gupta and family. The company is a special purpose vehicle (SPV) formed for construction and lease of warehouse facility at Vapi, Gujarat. The company leased out warehouse to Hindustan Unilever Limited (HUL) for a period of 9 years from May 2017 to April 2026. The warehouse built-up area is 4,80,968 sq. ft. and leased out for a monthly rental of about Rs.79 lakhs with an escalation at 15 per cent every three years. It is a part of Scalar group and is a subsidiary of Egwood Industries Private Limited and ultimate subsidiary of Musaddilal Projects Private Limited.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of BCPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and establish track record of operations**

BCPL is a part of Scalar group promoted by Mr. Pramod Kumar Gupta and family. The promoters of the group have been engaged in the warehouse construction and leasing business for more than a decade through various entities including Musaddilal Projects Private Limited, Egwood Industries Private Limited, Musaddilal Properties Private Limited among others. The group owns contracted warehouse space of ~2.7 Million sq. ft. in 7 locations all over India and entered long term lease agreements of 9-10 years with reputed clients namely Hindustan Unilever Limited, ITC Limited and UTI Worldwide (India) Private Limited under various SPVs. Apart from the leasing business, the Scalar group is in plywood manufacturing business since 1964 under 'Egwood Boards and Panels Private Limited'. Acuité believes that the company will continue to benefit from the experience of the management over the medium term.

- **Steady revenue stream under lease arrangement from reputed client; no adverse impact of Covid-19**

BCPL derives its revenues by way of lease rentals from HUL through its warehouse facility based in Vapi Gujarat. HUL is among India's largest FMCG companies with a diverse product portfolio including soaps and detergents, personal care products, and food and beverages. The total built-up area is 4.81 lakh sq. ft. The facility was rented at a monthly lease rental of about Rs.79 lakhs with an escalation at 15 per cent every three years from May 2017 to April 2026. BCPL receives advance payment every month. Apart from that, all the revenue inflows are routed through ESCROW account and the company is maintaining DSRA of three months EMI.

BCPL had no adverse impact of Covid-19 on its cash inflows in FY2021 as no discounts or waiver of rentals were agreed upon with the tenant. Instead, it reported higher operating income of Rs.11.88 Cr in FY2021 on provisional basis vis-à-vis Rs.10.58 Cr in FY2020. The increase of 12.30 percent in the operating income was on account of the rental hike as per the lease agreement post 3 years from the date of agreement in May 2017. The next rental hike of 15 percent is expected in FY2024. Acuité believes that reputed clientele and regular receipt of rentals are expected to keep the revenues and cash flows stable over the medium term.

Weaknesses

- **Customer concentration risk in revenue receipts**

To serve the LRD loan, the company's revenues are entirely dependent on single customer i.e. HUL. Acuité believes that any unprecedented stretch in receiving lease rental from HUL is likely to impact BCPL's debt-servicing ability. However, the risk is partially mitigated by the long-term agreement of 9 years and lock-in period for entire years along with a clause of levying a penal interest of 18 percent on delayed rentals as per the lease agreement.

Liquidity Position: Adequate

BCPL has adequate liquidity marked by comfortable net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.7.52 Cr in FY2021 on provisional basis against its maturing debt obligations of Rs.2.39 Cr. The NCAs were negative at Rs.0.19 Cr in FY2020 on account of higher expenses w.r.t. the land purchase against debt obligations of Rs.1.06 Cr; the shortfall was met through unsecured loan from its promoters/group companies. The cash accruals of the company are estimated to remain around Rs.5 - 7 Cr during 2022-24 while its repayment obligation is estimated to be around Rs.2.77-Rs.5.00 Cr. BCPL receives advance payment every month. Apart from that, all the revenue inflows are routed through ESCROW account and the company is maintain DSRA of three months EMI. The current ratio of the company stands moderate at 2.74 times as on March 31, 2021 (provisional). Acuité believes that the liquidity of the company will remain adequate with steady cash inflows from the reputed customers.

Rating Sensitivities

- High debt-funded capital expenditure in the near to medium term.
- Timely renewal of agreement at similar or better terms than the existing agreements.

Outlook: Stable

Acuité believes that BCPL will maintain a 'Stable' outlook over the medium term from its promoters' industry experience and long term lease agreement with the HUL. The outlook may be revised to 'Positive' in case of early payment of its loan obligations while maintaining its cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any significant stretch in its receivables or diversion of liquid investments leading to deterioration of its financial flexibility and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Prov)	FY20 (Actual)
Operating Income	Rs. Cr.	11.88	10.58
PAT	Rs. Cr.	2.20	(6.67)
PAT Margin	(%)	18.55	(63.06)
Total Debt/Tangible Net Worth	Times	(11.48)	(10.32)
PBDIT/Interest	Times	1.77	1.09

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

BCPL's rating was further downgraded and remained in 'ISSUER NON COOPERATING" status with CRISIL, through its rating rationale dated April 26, 2021. The reason provided by CRISIL is non-furnishing of information by BCPL.

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.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
04-Feb-2020	Lease Rental Discounting	Long Term	86.00	ACUITE BBB / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Maturity Date Amount (Rs. Cr)	Recommended Rating
Lease Rental Discounting	Not Applicable	Not Applicable	Not Applicable	86.00	ACUITE BBB / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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