

Press Release

Kailash Darshan Housing Development (Gujarat) Private Limited

February 18, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 56.00 crore*
Long Term Rating	ACUITE A-/ Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs. 56.00 crore bank facilities of Kailash Darshan Housing Development (Gujarat) Private Limited (KDPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation takes into account the sustained business risk profile, healthy financial risk profile and adequate liquidity position. KDPL has long-term lease agreements with reputed lessee profile and the built-to-suit nature of properties results in lower risk of non-renewal. The financial risk profile of the company has remained healthy with moderate leverage levels and healthy debt protection metrics.

On the contrary, cash flows of the company are impacted to an extent due to covid-19 induced lockdown, as KDPL has leased out its properties to various corporate tenants. Furthermore, it has resulted in negligible operations in the multiplex segment during the current year. KDPL has provided certain rebates to some of the tenants during the period April to December 2020. Since January 2021, the lease rentals are being normally charged. In addition to this, KDPL has recently shifted its banking facilities to Kotak Mahindra Bank with a concession in the interest rate, hence lowering the overall cost of borrowings. Though KDPL has provided rebates to the tenants, the company's cash flows were adequate to service its debt obligations. Further, the utilization of dropline overdraft facility has remained as low as 10.82 per cent during the last three months ended December 2020, thereby providing sufficient liquidity buffer.

About the company

Incorporated in 2004, Kailash Darshan Housing Development (Gujarat) Private Limited (KDPL) is engaged in the business of film exhibition along with construction and leasing of commercial properties. KDPL operates a four screen multiplex namely 'City Gold' in a commercial complex located at Shyamal, Ahmedabad with total land area of 36,243 sq. ft. and build-up area of 1,26,131 sq. ft. The commercial complex is fully operational and entire area is leased out to four tenants; Future Lifestyle Fashions Limited, Future Retail Limited (ACUITE D), Tata Telecommunications Limited and Tata Teleservices Limited.

Apart from this, the company has two other properties viz. a warehouse at Bilaspur-Tauru national highway-Haryana leased out to Amazon Seller Services Private Limited and an industrial property at IMT Manesar, Gurugram leased out to Bridgestone India Private Limited. KDPL is promoted by Mr. Chimanlal Agrawal along with Mr. Sanjay Agrawal and is a part of "City Gold" group, also known as "Agrawal Group".

About the group

The group comprises of KDPL, City Gold Entertainment Limited (CGEL) and City Gold Media Limited (CGML). CGEL owns and operates four multiplexes with 14 screens having total capacity of 2,800 seats. Apart from the multiplex, CGEL has entered into lease agreements with corporates such as SNS Foods and Beverages LLP, Team Lease Services Limited and Airan Limited among others. CGML had acquired Nutan Mill compound at Bapunagar through High Court auction and constructed a multiplex with 4 screens and seating capacity of 419 seats.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management with long track record of operations**

KDPL was incorporated in the year 2004 and is part of Ahmedabad based 'City Gold' group, promoted by Mr. Chimanlal Agrawal and Mr. Sanjay Agrawal. Mr. Chimanlal Agrawal has an experience of over four decades in construction, real estate development and leasing of space and Mr. Sanjay Agrawal has around two decades of experience in the aforementioned industry. KDPL has been engaged in the business of film exhibition and leasing of space for over a decade through its property namely, "City Gold, Shyamal" accommodating a four screen multiplex along with four other corporate tenants. Further, the company had acquired two pre-leased properties in FY18, which are 100 per cent occupied.

The group generates its revenue from film exhibition, real estate development and leasing of space and has developed more than 25 projects spread over 42 lakh square feet of commercial and residential space in Ahmedabad region. Further, the company also operates 6 multiplexes under the brand name 'City Gold' across Ahmedabad region with 22 screens and seating capacity of over 3500.

The extensive experience of the promoters along with its established track record of operations is reflected through the long-term lease agreements with its reputed tenants. Acuité believes that KDPL will continue to benefit from its established track record of operations, experienced management and long standing relationships with the tenants.

- Adequate cash flows supported by long-term lease agreements and reputed lessee profile**

The company has entered into long term lease agreements with reputed clientele like, Future Lifestyle Fashion Limited (FLFL), Future Retail Limited (FRL), Tata Communications Limited (TCL) and Tata Teleservices Limited (TTL), with the total leasable area of ~70,587 sq. ft. These agreements have a tenure ranging from 9 to 20 years with price escalation of 12 per cent to 15 per cent, every 3 years.

In addition to this, KDPL had acquired two pre-leased properties in FY2018, one is a warehouse with total leasable area of 1,84,840 sq. ft. at Bilaspur-Tauru National Highway being used as a fulfilment centre by Amazon Seller Services Private Limited and the other is an industrial property with leasable area of 72,419 sq. ft. at IMT Manesar, leased out to Bridgestone India Private Limited, which has been operating its manufacturing plant for over two decades. The cash flows to an extent are impacted due to covid-19 and KDPL has provided several rebates to the tenants in the current year. KDPL has also foregone escalation in the lease rentals for some of the tenants in the current year. Furthermore, revenue from multiplex stood negligible during 9MFY2021 as there were no scheduled releases in theatres across the country due to the norms related to social distancing.

Henceforth, Acuité believes that there would be an evident impact on the revenue and cash flows for current year, however sustaining adequacy of cash flow to service debt obligations.

- Healthy financial risk profile**

KDPL's financial risk profile is healthy, marked by a moderate net worth, low gearing and healthy debt protection metrics.

KDPL's net worth stood at Rs.53.19 crores as on March 31, 2020 as against Rs.46.38 crore as on March 31, 2019. The net worth levels have seen significant improvement over the last three years through FY2020 on account of healthy accretion to reserves during the same period.

The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.35 times and 1.46 times as on March 31, 2020. KDPL's moderate cash accruals to the tune of about Rs.9.21 crores have supported in minimizing the reliance on external debt which led to moderate gearing and debt levels of 1.03 times and Rs.54.95 crores respectively as on March 31, 2020. KDPL's lease rentals are aligned with the term loan repayments ensuring adequacy of the cash flows. Further, net cash flow arising out of film exhibition business albeit fluctuating, acts as a supplement to the cash flows, leading to an additional cushion for debt repayment obligations. Therefore, debt protection metrics for FY2020 were moderate with Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) of 2.79 times and 1.19 times, respectively.

Acuité believes the financial risk profile to remain healthy over the medium term on account of healthy accretion to reserves.

Weaknesses

- **Renewal risk and customer concentration risk**

Occurrence of events such as policy decision by key clients to shift their offices to other state or decisions regarding outsourcing, can impact their willing to continue their lease agreement. Further, this risk is mitigated at an extended, considering its strategic location. In the event of non-renewal by existing lessee, the future cash flows will be impacted thereby translating to weakening of debt protection indicators. In the event of either of the companies 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.

- **Highly competitive and fragmented nature of industry**

The real estate industry in India is highly fragmented with most of the real estate developers, having a city-specific or region-specific presence. The risks associated with real estate industry are cyclical in nature of business (drop in property prices) and interest rate risk, among others which could affect the operations. KDPL is exposed to lease renewal risk, i.e. while renewing the lease agreements, any significant renegotiations by the lessees can adversely impact the cash flows.

Further, KDPL is exposed to intense competition in film exhibition industry which is fragmented in nature as at lower end there are single screen theaters while on top end there are chains such as PVR, Cinepolis, INOX and Carnival Cinemas, to name a few. Further, there arises a need of timely adoption of technology like facilities enabling 4D movies, etc. The industry is also exposed to regulatory risk which is likely to impact revenue model of the players such as KDPL, thereby impacting its operating capabilities.

Liquidity position: Adequate

The liquidity position of KDPL is adequate marked by alignment of date of lease rentals with the repayment date, i.e. 15th of every month. KDPL has a drop-line-overdraft facility for its multiplex segment with average utilization of ~11 per cent for the past 3 months ending December 2020, thereby providing additional liquidity buffer. The company maintains unencumbered cash and bank balances of Rs.0.03 crore as on March 31, 2020. Acuité believes that the liquidity of KDPL is likely remain adequate over near to medium term on account of healthy net cash flows.

Rating Sensitivities

- Timely renewal of lease agreement.
- Decline in occupancy levels leading to cash flows mismatch

Material Covenants

- None

Outlook: Stable

Acuité believes that KDPL will maintain a 'Stable' outlook over the medium term on account of experienced management and established track record of operations. The outlook may be revised to 'Positive' in case of the company generates healthy net cash accruals while maintaining a comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of any significant stretch in its collections leading to deterioration of its financial flexibility and liquidity.

About the Rated Entity – Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	20.49	20.10
PAT	Rs. Cr.	6.80	7.25
PAT Margin	(%)	33.21	36.09
Total Debt/Tangible Net Worth	Times	1.03	1.35
PBDIT/Interest	Times	2.79	3.22

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>
- Real Estate Entities- <https://www.acuite.in/view-rating-criteria-63.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 (Up to last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
February 07, 2020	Drop-Line Overdraft	Long term	3.63	ACUITE A-/ Stable (Assigned)
	Term Loan-I	Long term	21.54	ACUITE A-/ Stable (Assigned)
	Term Loan-II	Long term	19.42	ACUITE A-/ Stable (Assigned)
	Term Loan-III	Long term	11.26	ACUITE A-/ Stable (Assigned)
	Proposed Bank Facilities	Long term	0.15	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. Crore)	Ratings/Outlook
Drop-Line Overdraft	Not Applicable	Not Applicable	Not Applicable	3.63	ACUITE A- (Withdrawn)
Term Loan-I	Not Applicable	Not Applicable	Not Applicable	21.54	ACUITE A- (Withdrawn)
Term Loan-II	Not Applicable	Not Applicable	Not Applicable	19.42	ACUITE A- (Withdrawn)
Term Loan-III	Not Applicable	Not Applicable	Not Applicable	11.26	ACUITE A- (Withdrawn)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	3.90 (enhanced from Rs. 0.15 crore)	ACUITE A-/ Stable (Reaffirmed)
Drop-Line Overdraft	Not Applicable	Not Applicable	Not Applicable	3.40	ACUITE A-/ Stable (Reaffirmed)
Term Loan-I (Lease Rental Discounting)	Not Applicable	Not Applicable	Not Applicable	3.74	ACUITE A-/ Stable (Reaffirmed)
Term Loan-II (Lease Rental Discounting)	Not Applicable	Not Applicable	Not Applicable	0.53	ACUITE A-/ Stable (Reaffirmed)
Term Loan-III (Lease Rental Discounting)	Not Applicable	Not Applicable	Not Applicable	1.35	ACUITE A-/ Stable (Reaffirmed)

Mortgage Loan	Not Applicable	Not Applicable	Not Applicable	3.21	ACUITE A-/ Stable (Reaffirmed)
Mortgage Loan	Not Applicable	Not Applicable	Not Applicable	11.39	ACUITE A-/ Stable (Reaffirmed)
Term Loan-IV (Lease Rental Discounting)	Not Applicable	Not Applicable	Not Applicable	10.24	ACUITE A-/ Stable (Reaffirmed)
Term Loan-V (Lease Rental Discounting)	Not Applicable	Not Applicable	Not Applicable	18.24	ACUITE A-/ Stable (Reaffirmed)

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About Acuité Ratings & Research:

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