

Press Release

MUSADDILAL HOLDINGS PRIVATE LIMITED

May 07, 2021

Rating Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs. 65.00 Cr. (Enhanced from Rs.58.50 Cr.)
Long Term Rating	ACUITE BBB/ Outlook: Stable (Reaffirmed & Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB**' (read as **ACUITE Triple B**) on the Rs. 58.50 Cr bank facilities and assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE Triple B**) on the Rs.6.50 Cr bank facilities of Musaddilal Holdings Private Limited (MHPL). The outlook remains '**Stable**'.

Musaddilal Holdings Private Limited (MHPL) is a Hyderabad-based entity, incorporated in the year 2015 by Mr. Pramod Kumar Gupta and his son Mr. Rohit Gupta. The company is a part of Scalar Group and is a subsidiary of Musaddilal Projects Private Limited. The company is engaged in business of construction, leasing and maintenance of warehouse. The company has leased and is maintaining a warehouse premises at Ashok Nagar, Madhya Pradesh to ITC Limited.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management and establish track record of operations**

MHPL is a part of Scalar Group and is promoted by Mr. Pramod Kumar Gupta and family. The promoters of the group have been engaged in the warehouse construction and leasing business for over a decade through various entities including Musaddilal Projects Private Limited Egwood Industries Private Limited Bhagwat Chattels Private Limited among others. The group owns contracted warehouse space of ~2.7 Million sq. ft. across 7 locations all over India and entered long term lease agreements ranging from 9 to 20 years. The company has been associated with reputed clients namely Hindustan Unilever Limited, ITC Limited and UTI Worldwide (India) Private Limited among others. Apart from the leasing business the Scalar group is also engaged in plywood manufacturing business since 1964 under 'Egwood Boards and Panels Private Limited'. Acuite 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; minimal impact of Covid-19**

MHPL derives its revenues by way of lease rental and warehouse maintenance from ITC Limited (ITC) through its warehouse facility based in Ashok Nagar, Madhya Pradesh. ITC was established in 1910 is one of the largest cigarette manufacturers in the country. ITC is a diversified conglomerate with its presence across various segment such as -FMCG, Cigarettes, Hotels, Paper and Packaging and Agri Business. The company has leased out its warehouse to ITC for a period of 10 years ending in FY2028. As per the terms of agreement, ITC will be storing 1,30,000 MT of goods and pay Rs.56.87 per MT per month with an escalation at 5 per cent every year. Further, the company has maintained a Debt Service Reserve Account (DSRA) for three months repayment along with ESCROW mechanism.

MHPL had minimal adverse impact of Covid-19 on its cash inflows in FY2021 as a discount of Rs.1.52 Cr was provided for the period April 2020 to September 2020 on the tenant's request. This led to lower operating income of Rs.7.72 Cr (Provisional) in FY2021 against Rs.9.59 Cr in FY2020. Despite a dip in the operating income by almost 20 percent in FY2021, the company maintained a DSCR above 1 times at 1.02 times as on March 31, 2021 (Provisional). The DSCR was at 1.03 times as on March 31, 2020. The cash inflows are expected to be steady over the medium term supported by way of 5 percent rental hike every year under the specified terms and conditions of the lease agreement. Acuite 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. ITC. Acuité believes that any unprecedented stretch in receiving lease rental from ITC is likely to impact MHPL's debt-servicing ability. However, the risk is partially mitigated by the long-term agreement of 10 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.

- **Susceptibility to lessee' performance along with occupancy and renewal risk**

MHPL primarily generates cash flows from lease rental and maintenance of warehouse. The company's ability to meet its repayment obligations will be dependent on the continued and timely flow of rentals as per the agreed terms under arrangement. The occurrence of events such as delays in receipt of rentals, or early exits/renewal by lessee due to the latter's lower than expected business performance may result in disruption of cash flow streams, thereby affecting MHPL's debt servicing ability. The renewals leasing at better terms, any significant renegotiations by the lessees can adversely impact the cash flows from the warehouse.

Liquidity Position: Adequate

MHPL has adequate liquidity marked by comfortable net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.25.88 Cr in FY2021 on provisional basis against its maturing debt obligations of Rs.3.56 Cr. The adjusted NCAs excluding the deferred tax charge were Rs.2.55 Cr in FY2021 on provisional basis. The cash accruals of the company are estimated to remain around Rs.3.5 - 6 Cr during 2022-24 while its repayment obligation is estimated to be around Rs.3.15-Rs.3.60 Cr. MHPL 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 2.26 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 agreement.

Outlook: Stable

Acuité believes that MHPL will maintain a 'Stable' outlook over the medium term from its promoters' industry experience and long term lease agreement with the ITC. 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 leading to deterioration of its financial flexibility and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Prov)	FY20 (Actual)
Operating Income	Rs. Cr.	7.72	9.59
PAT	Rs. Cr.	20.58	23.57
PAT Margin	(%)	266.62	245.65
Total Debt/Tangible Net Worth	Times	1.24	1.87
PBDIT/Interest	Times	1.54	1.63

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

None

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
28-Feb-2020	Lease Rental Discounting	Long Term	58.50	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	September 2020	8.1%	March 2033	58.50	ACUITE BBB / Stable (Reaffirmed)
Lease Rental Discounting	September 2020	8.1%	March 2033	6.50	ACUITE BBB / Stable (Assigned)

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About Acuite Ratings & Research:

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