Press Release

Musaddilal Holdings Private Limited

October 28, 2022

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	44.00	ACUITE BBB | Stable | Assigned	-
Bank Loan Ratings	65.00	ACUITE BBB | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	109.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed its long term rating of **'ACUITE BBB' (read as ACUITE Triple B)** on the Rs 65.00 Cr bank facilities of Musaddilal Holdings Private Limited (MHPL). The long term rating of **'ACUITE BBB' (read as ACUITE Triple B)** has been assigned on additional Rs.44.00 Cr of bank facilities of MHPL. The outlook is **'Stable'**.

Rationale for the rating

The rating reaffirmation continues to be supported by the experienced management and establish track record of operations, steady revenue stream under lease arrangement from reputed clients and adequate liquidity position marked by adequate cash accruals against repayment obligations. The rating is, albeit, constrained by susceptibility to lessee' performance along with occupancy and renewal risk.

About the Company

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

Acuité 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'. 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**

  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. 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. 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. ITC. Acuité believes that any unprecedented stretch in receiving lease rental from ITC is likely to impact MHPL's debtservicing 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/renegotiation 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.

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

Material covenants

None

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.4.17 Cr in FY2022 on against its maturing debt obligations of Rs.3.24 Cr. The cash accruals of the company are estimated to remain around Rs.2.00 – 3.15 Cr during 2023-25 while its repayment obligation is estimated to be around Rs.1.2-Rs.2.40 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 thee months EMI. The current ratio of the company stands moderate at 2.73 times as on March 31, 2022. Acuité believes that the liquidity of the company will remain adequate with steady cash inflows from the reputed customers.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	9.83	7.73
PAT	Rs. Cr.	(0.48)	(2.74)
PAT Margin	(%)	(4.84)	(35.40)
Total Debt/Tangible Net Worth	Times	23.71	21.00
PBDIT/Interest	Times	1.49	1.49

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
- Service Sector: https://www.acuite.in/view-rating-criteria-50.htm
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Aug 2022	Lease Rental Discounting	Long Term	58.50	ACUITE BBB | Stable (Reaffirmed)
	Lease Rental Discounting	Long Term	6.50	ACUITE BBB | Stable (Reaffirmed)
07 May 2021	Term Loan	Long Term	58.50	ACUITE BBB | Stable (Reaffirmed)
	Term Loan	Long Term	6.50	ACUITE BBB | Stable (Assigned)
28 Feb 2020	Term Loan	Long Term	58.50	ACUITE BBB | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Lease Rental Discounting	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE BBB | Stable | Reaffirmed
Indian Bank	Not Applicable	Lease Rental Discounting	Not Applicable	Not Applicable	Not Applicable	44.00	ACUITE BBB | Stable | Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.