

Press Release

Musaddilal Properties Private Limited

June 28, 2021



Rating Reaffirmed

| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs. 89.91 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. 89.91 Cr bank facilities of Musaddilal Properties Private Limited (MPPL). The outlook remains '**Stable**'.

Musaddilal Properties Private Limited (MPPL) is a Hyderabad-based entity, incorporated in the year 2013 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 has leased a specially constructed warehouse I premises at Shirur, Pune to ITC Limited for a period of 20 years. The total built up area for the warehouse is 250,858 sq. ft. MPPL is also constructing Warehouse II in Shirur, Pune with total built-up area of 2,50,000 sq ft with a total project cost of Rs.61.21 Cr, to be funded by debt-to-equity ratio of 75:25.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management and establish track record of operations**

MPPL 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; minimal impact of Covid-19 on Warehouse I**

MPPL derives its revenues by way of lease rental and warehouse maintenance from ITC Limited (ITC) through its warehouse I facility based in Shirur, Pune. 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 20 years ending in October 2036. As per the terms of agreement, ITC will be paying monthly lease rental of about Rs.0.45 Cr with an escalation at 15 per cent every three years from November 2016 to October 2036. Further, the company has maintained a Debt Service Reserve Account (DSRA) for one month repayment along with ESCROW mechanism.

In FY2021, MPPL was due for a rental hike of 15 percent, thereby, taking the total rental income to Rs.6.63 Cr for the period FY2021-FY2023. MPPL had a minimal adverse impact of Covid-19 on its cash inflows in FY2021 as a discount of Rs.1.03 Cr was provided for the period June 2020 to November 2020 on the tenant's request. This led to lower operating income of Rs.5.19 Cr (Provisional) in FY2021 against Rs.5.76 Cr in FY2020. Despite a dip in the operating income by almost 9.81 percent in FY2021, the company maintained a DSCR above 1 times at 1.01 times as on March 31, 2021 (Provisional). The DSCR was at 1.15 times as on March 31, 2020. The cash inflows are expected to be steady over the medium term supported by way of 15

percent rental hike every 3 years 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

- **Timely leasing of Warehouse II**

MPPL had signed Letter of Intent with Future Supply Chain Solution Limited (FSCSL) in July 2019 to lease out a newly constructed warehouse II facility at Pune for a lease term of 10 years (lock-in period of 5 years). The project has been ~62 percent completed as on March 31, 2021 with incurrence of ~Rs.38.25 Cr. This was funded through promoter fund support, internal accruals and unsecured loans from group companies of Rs.18.00 Cr and remaining Rs.20.2 Cr of term loan. The company is yet to draw down the remaining term loan of Rs.23.80 Cr which is expected to be utilised by H1 FY2022. The entire project is expected to be completed by July of FY2022. The project was expected to be completed in FY2021 earlier. Due to Covid-19 induced lockdown and delay in confirmation from FSCPL due to the ongoing dispute, there have been delays in the construction activities. MPPL is currently constructing the warehouse with a total built up area of 2.5 lakh sq. ft. with the total project cost of Rs.61.21 Cr. The total project is expected to be funded through debt to equity in the ratio of 75:25. MPPL is also in talks with other prospective tenants in case of delay by FSCPL. Besides, as per the unsecured loan undertaking provided by MPPL to Acuité, it is stated that in the event of any such delay, promoters/group companies would support MPPL to meet the repayment debt obligations w.r.t. the warehouse II. Acuité believes that timely tie-up with its prospective tenant and commencement of rental inflows to meet its repayment debt obligations will remain key monitorable over the near term.

- **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 MPPL's debt-servicing ability. However, the risk is partially mitigated by the long-term agreement of 20 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**

MPPL 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 MPPL'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

MPPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.94 Cr in FY2021 on provisional basis against its maturing debt obligations of Rs.0.92 Cr. The cash accruals of the company are estimated to remain around Rs.4 - 6 Cr during 2022-24 while its repayment obligation is estimated to be around Rs.1.50-Rs.3.00 Cr (including NCAs from Warehouse II). MPPL receives payment on 10th of every subsequent month. Apart from that, all the revenue inflows are routed through Escrow account and the company maintains DSRA of one month EMI. The current ratio of the company stands low at 0.67 times as on March 31, 2021 (provisional) vis-à-vis 1.22 times as on March 31, 2020. 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 tie-up for lease agreement with its prospective tenant for the warehouse II enabling timely repayments
- Timely support from group companies/promoters in case of delay in leasing of warehouse II to enable pay its debt debt obligations
- Timely renewal of agreement at similar or better terms than the existing agreement.

Outlook: Stable

Acuité believes that MPPL will maintain a 'Stable' outlook over the medium term from its promoters' industry experience and long term lease agreement with the ITC for warehouse I. 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, delay in leasing of warehouse II, leading to deterioration of its financial flexibility and liquidity.

About the Rated Entity - Key Financials

| | Unit | FY21 (Prov) | FY20 (Actual) |
|--|---------|-------------|---------------|
| Operating Income | Rs. Cr. | 5.19 | 5.76 |
| PAT | Rs. Cr. | (1.00) | (2.62) |
| PAT Margin | (%) | (19.18) | (45.49) |
| Total Debt/Tangible Net Worth (Adjusted) | Times | 30.98 | 14.24 |
| PBDIT/Interest | Times | 1.24 | 1.25 |

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

MPPL's rating was downgraded and migrated to 'ISSUER NON COOPERATING" status with CRISIL through its rating rationale dated April 28, 2021. The reason provided by CRISIL is non-furnishing of information by MPPL.

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 |
|--------------|---------------------------------|-----------|-----------------|--------------------------------|
| 12-June-2020 | Lease Rental Discounting | Long Term | 89.91 | ACUITE BBB / Stable (Assigned) |
| 28-Feb-2020 | Lease Rental Discounting | Long Term | 89.91 | 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 | 01-June-2017 | 8.1-9.05% | 31-May-2032 | 89.91 | ACUITE BBB / Stable (Reaffirmed) |

Contacts

| Analytical | Rating Desk |
|---|--|
| Aditya Gupta Vice President – Corporate Ratings Tel: 022-49294041 aditya.gupta@acuite.in | Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in |
| Neha Agarwal Assistant Manager - Rating Operations Tel: 040-4004 2327 neha.agarwal@acuite.in | |

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuite, Acuité's rating scale and its definitions.