Acuite
RATINGS & RESEARCH

Press Release

Musaddilal Projects Private Limited

March 30, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs.25.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of **'ACUITE BBB+' (read as ACUITE BBB plus)** on the Rs. 25.00 crore bank facilities of MUSADDILAL PROJECTS PRIVATE LIMITED. The outlook is **'Stable'**.

Musaddilal Projects Private Limited (MPPL), is the flagship and ultimate holding company of the Scalar Group, incorporated in the year 2006, by Mr. Pramod Kumar Gupta and his son Mr. Rohit Gupta. MPPL is the parent entity with 5 SPVs under the group. The company has leased a specially constructed warehouse premises at Bangalore and Chennai to Hindustan Unilever Limited (HUL) and UTI Worldwide (India) Private Limited (UTI) respectively.

Analytical Approach

Acuité has consider standalone business and financial risk profiles of MPPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Extensive experience of the promoters**
  MPPL is the flagship and ultimate holding company of Scalar group promoted by Mr. Pramod Kumar Gupta and family. It is the parent entity with 5 SPVs under the group. The promoters of the group have been engaged in the warehouse construction and leasing business for more than a decade through various entities namely Musaddilal Properties Private Limited, Musaddilal Holdings Private Limited, Egwood Industries Private Limited, Bhagwat Chattels Private Limited among others. The group currently owns warehouse space of ~2.7 million sq. ft. across 7 locations all over India and entered long term lease agreements ranging from 9 years to 10 years. The group has been associated with reputed clients namely HUL, ITC Limited and UTI 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'. Currently, the entire group is valued at more than ~Rs.2000 Cr. The promoters are diluting the shares by 5 percent by allowing private equity investor PCP to invest around Rs.181.70 crore. The investors have already invested about Rs.68.75 Cr in the form of debentures (CCDs- Rs.18.75 Cr and OCD's Rs.50 Cr, redeemable/convertible after 10 years from allotment date of 13 April 2018) as on March 2019. The purpose of this dilution is that the company is planning to purchase land for future construction projects.
  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 clients**
  MPPL derives its revenues by way of lease rentals from HUL and UTI through warehouse facility based in Bangalore and Chennai respectively. 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 company has 28 owned factories and many outsourced production facilities across the country. The warehouse has a built-up area of 4.20 lakh sq. ft. The facility is rented at a monthly lease rental of about Rs.0.74 crore with an escalation of 15 per cent every eleven months from Mar 2019 to Jan 2019. The agreement with HUL was signed in 2009 till 2019. In Aug 2019, it extended for another eleven months and would be extended for another ten years in the same manner. MPPL receives payment either in advance or within 15 days from the date of bill. MPPL's another client, UTI, was founded in 1993. The Company's line of business includes the arranging of transportation of freight and cargo. The warehouse has a built-up area of 2.18 lakh sq. ft. The facility is rented at a monthly lease rental of about Rs.0.54 crore with an escalation of 15 per cent every three years from Apr 2017 to Jun 2027. MPPL receives payment within 10 days from the date of bill.
  Apart from that all the revenue receipts are routed through escrow account and the company is maintaining a DSRA of two-month for the Bangalore project and three-month for Chennai project for repayments. 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 two customers i.e. HUL and UTI. The agreement with HUL was signed in 2009 till 2019. In Aug 2019, it is extended for another eleven months and would be extended for another ten years in the same manner. The risk of lock-in period remains unqualified for HUL contract due to no long-term agreement. However, the risk in case of UTI Worldwide contract is partially mitigated by the initial lock in period of 10 years. Any unprecedented stretch in receiving lease rental from HUL and UTI Worldwide (India) Private Limited is likely to impact MPPL's debt-servicing ability.

Rating Sensitivities

- Early payment of its loan obligations while maintaining its cash accruals
- Stretch in its receivables

Material Covenants

- DSCR to not fall below 1.10 times
- Penal interest of 2 percent per annum to be charged on the amount not routed through escrow account

Liquidity Position: Adequate

MPPL has adequate liquidity marked by comfortable net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.25 to 6.47 Cr during the last three years through 2017- 19, while its maturing debt obligations were in the range of Rs.2.78-4.56 Cr over the same period. The cash accruals of the company are estimated to remain around Rs.16.11 to Rs.20.40 Cr during 2020-22 while its repayment obligation is estimated to be around Rs.4.56-Rs.6.43 Cr. MPPL receives payment within 10 days of the date of bill for the Chennai project and within 15 days from the date of bill for the Bengaluru project. Apart from that, all the revenue inflows are routed through escrow account and the company is maintaining DSRA of two-month for Bengaluru project and three-month for Chennai project for repayments. The cash and bank balance stood at Rs.29.06 Cr as on 31 March, 2019. Acuité believes that the liquidity of the company will remain adequate with steady cash inflows from the reputed customers.

Outlook: Stable

Acuité believes that MPPL will maintain a 'Stable' outlook over the medium term from its directors' industry experience and long-term lease agreement with the HUL and UTI. 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 lead to deterioration of its financial flexibility and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	17.10	16.56
PAT	Rs. Cr.	1.03	0.64
PAT Margin	(%)	5.80	3.88
Total Debt/Tangible Net Worth	Times	1.27	29.30
PBDIT/Interest	Times	1.71	1.64

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Infrastructure Entities - https://www.acuite.in/view-rating-criteria-51.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/criteria-complexity-levels.htm

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loans	21-Aug-2018	Not Applicable	31-Aug-2027	25.00	ACUITE BBB+/ Stable

Contacts

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About Acuité Ratings & Research:
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