# Press Release

**Musaddilal Projects Private Limited**

August 24, 2021

**Rating Reaffirmed**

| | |
|---|---|
| **Total Bank Facilities Rated*** | Rs. 90.00 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 Plus)** on the Rs. 90.00 Cr bank facilities of Musaddilal Projects Private Limited (MPPL). The outlook remains **'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 multiple 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.

The rating factors in MPPL's experienced management and establish track record of operations, steady revenue stream under lease arrangement from reputed client and no adverse impact of Covid-19. These rating strengths are constrained by customer concentration risk in revenue receipts and susceptibility to lessee's performance along with occupancy and renewal risk.

### 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 the flagship and ultimate holding company of Scalar group promoted by Mr. Pramod Kumar Gupta and family. It is the parent entity with multiple 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 20 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'.

  The promoters have diluted the shares by 15 percent by allowing private equity investor PCP to invest around Rs.176.70 Cr until FY2021by way of equity and debentures. The investors have invested about in the form of debentures, redeemable/convertible after 6 years from allotment date of 13 April 2018) as on March 2021. The purpose of this dilution was to purchase land for future construction projects. The company has used the proceeds from the investments into its existing as well as newly formed SPVs for purchasing of land across Pune, Chennai Bengaluru, Hyderabad, Rajasthan and Kolhapur. The group plans to increase its warehousing capacity to ~4 million square feet by adding 7-8 projects. The capex is likely to be funded by way of promoter's equity, senior and sub-debt at SPV level additional top-up at existing facilities and sale of one its operational asset. The company plans to give an exit to the existing investor. It has prepaid Rs.15 Cr in Q1FY2022 already. 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; no adverse impact of Covid-19**
  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 with a 3-year lease rent agreement. The agreement with HUL was signed in 2009 till 2019. In April 2019, it got extended for 11 months ending Feb'20, followed by another 11 months' renewal until Dec'20. In Jan'21, a lease agreement for 3 years was renewed on request of HUL with escalation of 5 percent every year.

  MPPL receives payment either in advance or within 15 days from the date of bill. MPPL's another client, UTI worldwide, 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 with an escalation of 15 per cent clause every 3 years from Apr 2017 to Jun 2027. MPPL receives payment within 10 days from the date of bill.

  MPPL had minimal adverse impact of Covid-19 on its cash inflows in FY2021 as a discount of Rs.0.82 Cr (one month rent) was provided for in 2 installments for the period of July 2020 and August 2020 on the tenant's request. Despite a dip in the operating income in FY2021, the company maintained a DSCR above 1 times at 1.10 times as on March 31, 2021 (Provisional). The DSCR was at 1.09 times as on March 31, 2020. The cash inflows are expected to be steady over the medium term supported by way of rental hike 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 2 customers i.e. HUL and UTI Worldwide. 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 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**
  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/negotiation 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.6.68 Cr in FY2021 on provisional basis against its maturing debt obligations. The cash accruals of the company are estimated to remain around Rs.9 - 13 Cr during 2022-24 while its repayment obligation is estimated to be around Rs.5-7 Cr. MPPL receives advance payment every month. Apart from that, all the revenue inflows are routed through ESCROW account and the company is maintaining DSRA of 3 months EMI. 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 agreements.

## 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 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 leading to deterioration of its

financial flexibility and liquidity.

## About the Rated Entity - Key Financials

| | Unit | FY21 (Prov) | FY20 (Actual) |
|---|---|---|---|
| Operating Income | Rs. Cr. | 16.65 | 16.64 |
| PAT | Rs. Cr. | 1.66 | 0.55 |
| PAT Margin | (%) | 9.98 | 3.31 |
| Total Debt/Tangible Net Worth | Times | 0.81 | 0.75 |
| PBDIT/Interest | Times | 1.87 | 1.65 |

## 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 26, 2021. The reason provided by CRISIL is non-furnishing of information by MPPL.

## Any other information

None

## Any Material Covenants

- DSCR to not fall below 1.10 times
- FACR to not fall below 1.13 times
- Penal interest of 2 percent per annum to be charged on the amount not routed through escrow account

## 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 |
|---|---|---|---|---|
| 16-Apr-2020 | Lease Rental Discounting | Long Term | 90.00 | ACUITE BBB+ / Stable (Reaffirmed) |
| 30-Mar-2020 | Lease Rental Discounting | Long Term | 25.00 | ACUITE BBB+ / Stable (Assigned) |

## *Annexure – Details of instruments rated

| Bank Name | Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Maturity Date Amount (Rs. Cr) | Recommended Rating |
|---|---|---|---|---|---|---|
| ICICI Bank | Lease Rental Discounting | 21-08-2018 | 8.25% | 31-08-2031 | 90.00 | ACUITE BBB+/ Stable (Reaffirmed) |

## Contacts

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

**About Acuité Ratings & Research:**
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