Press Release

Musaddilal Projects Private Limited

September 30, 2022

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	64.00	ACUITE BBB+ | Stable | Assigned	-
Bank Loan Ratings	90.00	ACUITE BBB+ | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	154.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of **'ACUITE BBB+' (read as ACUITE Triple B Plus)** on the Rs. 90.00 Cr bank facilities and assigned its long-term rating, of **'ACUITE BBB+' (read as ACUITE Triple B Plus)** on the Rs.64.00 Cr bank facilities of Musaddilal Projects Private Limited (MPPL). The outlook remains **'Stable'.**

The rating factors in MPPL's experienced management, establish track record of operations and steady revenue stream under lease arrangement from reputed clients. These rating strengths are constrained by customer concentration risk in revenue receipts and susceptibility to lessee's performance along with occupancy and renewal risk.

About the Company

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.

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 established 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 had diluted the shares by 15 percent by allowing private equity investor PCP to invest around Rs.176.70 Cr until FY2021 by way of equity and debentures. The investors had invested 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 as planned has given an exit to the existing investor at a consideration of Rs.150.00 Cr and replaced this by top-up/emahncement in existing debt. 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 the reputed client

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. The agreement with HUL was signed in 2009 till 2019; further extended for 10 years up to 2029. 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. 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 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.

ESG Factors Relevant for Rating

Not Applicable

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.
- Delay in lease receivables

Material covenants

None

Liquidity: Adequate

MPPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.6.34 Cr in FY2022 on provisional basis against its maturing debt obligations. The cash accruals of the company are estimated to remain around Rs.4-7 Cr during 2023-25 while its repayment obligation is estimated to be around Rs.2-5 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. The DSCR is expected to be lower-than-estimated in FY2023 on account of higher interest outgo resulting from higher debt (top-up availed through take-over of existing debt). Given the nature of the business and the balloning repayment structure, the DSCR is expected to remain in the range of 1.05x to 1.2x max over the tenure of the debt. 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 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	18.30	17.12
PAT	Rs. Cr.	2.30	0.92
PAT Margin	(%)	12.56	5.37
Total Debt/Tangible Net Worth	Times	6.46	17.11
PBDIT/Interest	Times	1.94	1.84

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 June 24, 2022. The reason provided by CRISIL is non-furnishing of information by MPPL.

Any other information
None

Applicable Criteria
- Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
- Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
- Insurance Companies: https://www.acuite.in/view-rating-criteria-66.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
24 Aug 2021	Term Loan	Long Term	90.00	ACUITE BBB+ | Stable (Reaffirmed)
16 Apr 2020	Term Loan	Long Term	90.00	ACUITE BBB+ | Stable (Reaffirmed)
30 Mar 2020	Term Loan	Long Term	25.00	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
State Bank of India	Not Applicable	Lease Rental Discounting	27-06-2022	7.65	27-04-2036	90.00	ACUITE BBB+ | Stable | Reaffirmed
Indusind Bank Ltd	Not Applicable	Lease Rental Discounting	30-03-2022	7.30	30-03-2024	56.00	ACUITE BBB+ | Stable | Assigned
State Bank of India	Not Applicable	Lease Rental Discounting	27-06-2022	7.65	27-04-2036	8.00	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.