

Press Release

Aurobindo Realty and Infrastructure Private Limited

May 03, 2022



Rating Reaffirmed and Reaffirmed & Withdrawn

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---------------------------------------|---------------------|--|----------------------|
| Non Convertible Debentures (NCD) | 150.00 | Provisional ACUITE AA- Reaffirmed & Withdrawn | - |
| Non Convertible Debentures (NCD) | 212.50 | ACUITE AA- Reaffirmed & Withdrawn | - |
| Non Convertible Debentures (NCD) | 637.50 | ACUITE AA- Stable Reaffirmed | - |
| Total Outstanding Quantum (Rs. Cr) | 637.50 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 362.50 | - | - |

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE AA-**' (read as **ACUITE Double A Minus**) on the Rs. 637.50 Cr of Non-Convertible Debentures (NCDs) of Aurobindo Realty and Infrastructure Private Limited (ARIPL). The outlook is '**Stable**'.

Acuité has reaffirmed and withdrawn '**Provisional ACUITE AA-**' (read as **Provisional ACUITE Double A Minus**) on the Rs. 150.00 Cr Non-Convertible Debentures (NCDs) of Aurobindo Realty and Infrastructure Private Limited (ARIPL) as the NCDs have not been issued.

Acuité has also reaffirmed and withdrawn '**ACUITE AA-**' (read as **ACUITE Double A Minus**) rating on the NCDs of Rs.212.50 Cr of Aurobindo Realty and Infrastructure Private Limited (ARIPL) on account of early redemption. The rating withdrawal is in accordance with the Acuité's policy on withdrawal of rating. The rating is being withdrawn on account of request received from the company and NOC from the banker.

Rationale for the Rating Reaffirmation

The rating reaffirmation is driven by strong support from ARIPL's parent entity, RPR Enterprises backed by a high level of unencumbered promoter shares of Aurobindo Pharma Ltd (APL), early redemption of NCDs and replacement of shorter term loan against shares (LAS) by longer term project specific debt, successful acquisition of Kakinada SEZ (KSEZ) and Kakinada Sea Ports Ltd (KSL) by the group, and diversified order book in ARIPL's EPC business. The rating is constrained by the nascent stage of operations at KSEZ against which majority of debt is availed, weaker debt coverage indicators and market risk arising from adverse movement in stock prices of APL.

About Company

Incorporated in August 2016 and based in Hyderabad (Telangana), Aurobindo Realty & Infrastructure Private Limited (ARIPL) is an Engineering, Procurement and Construction (EPC) contractor, presently involved in the construction activities of the real estate projects being undertaken by its subsidiary (Auro Realty Private Limited) and joint venture (Raidurgam Developers Limited). along with the EPC contract for Plerum Infra Projects Private Limited.

ARIPL is also an EPC contractor for the road and infrastructure projects awarded to the Group as well as for its investments in the mining business.

ARIPL is 82.26 percent (as on March 31, 2022) owned by RPR Enterprises, a partnership firm in which Penaka Family Trust is one of the partners. Penaka Family Trust is a discretionary private trust with ultimate beneficiaries i.e., Mrs. Penaka Suneela Rani, Mr. Penaka Rohit Reddy and Mr. P. Sarath Chandra Reddy.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has taken a consolidated view of ARIPL and its 100 percent wholly-owned subsidiary – Auro Realty Pvt Ltd (ARPL; erstwhile Mahira Ventures Private Limited) and Kakinada SEZ Limited (KSEZ), its joint venture - Raidurgam Developers Limited (RDL), given the strong legal, strategic, operational and financial linkages between the entities. Additionally, the consolidated approach takes into account the financials of Plerum Infra Projects Private Limited (Plerum), which is neither a joint venture nor a subsidiary, as ARIPL has entered into a fixed price engineering, procurement and construction contract with the former for a commercial project, and has also signed a memorandum of understanding (MOU) for a marketing arrangement, which to an extent mitigates the construction and sales risk for Plerum. Acuité has not consolidated the recently acquired associate company - Kakinada Seaports Limited (KSL), where ARIPL has limited access to the cashflows (41.12 percent of profit and dividends) but no operational or managerial control of the business. Acuité has also factored in support by way of pledge of shares of Aurobindo Pharma Limited (APL) held by RPR Enterprises to arrive at the rating.

Key Rating Drivers

Strengths

- **Rating driven by pledge of shares of Aurobindo Pharma Limited & promoter support**

ARIPL had issued Non-convertible debentures (NCDs) of Rs.850 Cr in 2 tranches in Q4FY2021 with maturity period of 37 months from the dates of issuance (maturity date falling in FY2024 & FY2025, respectively). The total NCDs of Rs.850 Cr raised by ARIPL are secured by way of pledge of equity shares of Aurobindo Pharma Limited (APL); held by RPR Enterprises (RPR). As per the final term sheet shared by ARIPL for the Rs.850 Cr of the NCD, the stipulated asset cover is 2.0x during the entire tenor of the NCD, with the top-up trigger at 1.80x and top-down trigger ratio in the range of 2.35x to 2.67x. During the tenure of the NCDs, total indebtedness across all entities that are secured via pledge or encumbrance, or otherwise assured by underlying shares held by the promoter group shall not exceed Rs. 4,420 Cr. The aforementioned NCDs were utilized to fund the acquisition of KSEZ and KSL.

ARIPL has informed Acuité on the early redemption of the 25 percent of the NCDs (around Rs.212.50 Cr) taking place in April 2022. Acuité is in receipt of confirmation from the investor – JP Morgan (through its subsidiary – Cophall Mauritius Investment Limited) along with letter

from National Security Depository Ltd (NSDL) on redemption on the Rs.212.50 Cr of NCDs. The NCD redemption was funded through redemption of cumulative convertible debentures (CCDs) from promoters and inter-corporate deposits (ICDs) from group entities.

Aurobindo Pharma Limited (APL), headquartered in Hyderabad, is a vertically-integrated pharmaceutical formulations manufacturer. It has 17 formulation manufacturing facilities (three in the US, one in Brazil, one in Netherlands and one in Portugal) and 11 active pharmaceutical ingredients manufacturing facilities. The facilities have regulatory approvals from major international agencies. The market capitalization of APL was ~Rs.37,204.17 Cr as on April 28, 2022. Its investor base includes leading domestic and foreign institutional investors. As on March 31, 2022, the promoter and promoter group holds 51.83 percent. Of this, RPR Enterprises and other holding companies belonging to the promoter group and family held 36.61 percent (RPR Enterprises was 33.51 percent). As on March 31, 2022 out of the total Promoter Group shareholding, 14.05 per cent was encumbered and the balance remained unencumbered, indicating significant flexibility to raise additional funding/offer top ups to existing NCD holders, if necessary. As regards RPR, the extent of pledge is 10.7 percent with remaining being unencumbered. The rating also factors in the clauses related to events of defaults, prepayments and additional share-backed indebtedness. Acuité believes that the promoters of APL will continue to support the debt servicing commitments under the NCDs issuances. The financial flexibility of the promoters (in terms of value of unencumbered shares in APL viz-a-viz pledge based borrowings) will be a key credit monitorable over the near to medium term.

- **Successful acquisition of KSEZ and KSL**

ARIPL has completed acquiring 99.74 percent stake in Kakinada SEZ Limited in FY2022 by investing Rs.1,704 Cr (vis-à-vis earlier estimate of Rs.1,600 Cr). As part of the transfer of stake of KSEZ, majority of equity stake of Kakinada Gateway Port Ltd (KGPL) held by KSEZ has also been transferred to ARIPL. Total consideration for the sale of equity stake as well as the sub-debt in KSEZ is Rs.2,610 Cr. Out of the total consideration, Rs.1,704 Cr was paid on the deal closing date and balance would be to be paid in next 2 to 3 years, which is contingent upon certain agreed milestones (being the sale of land is higher than the threshold value). ARIPL has also acquired 41.12 percent of stake in Kakinada Seaports Ltd (KSL) in FY2022 for a total consideration of Rs.494 Cr as a strategic investment. The acquisition was funded through Loan against Securities (LAS) of around Rs.1,735 Cr along with term loans from Yes bank at KGPL level and through sale proceeds from KSEZ.

- **Healthy revenue Visibility; Diversified order book**

ARIPL had an unexecuted order book of ~Rs.4,732 Cr as on March 31, 2022 comprising the construction of commercial and residential projects (Kohinoor Phase I & II and 'The Regent') under ARPL and Plerum. ARIPL has diversified its order book further by winning the bid for a road project in Mamallapuram and infrastructure projects in Ramyapatnam worth Rs.248.5 Cr and Rs.2,647.6 Cr, respectively. The order book is to be executed in next 12-36 months, providing medium to long term revenue visibility. In addition, various other projects are in pipeline for construction of residential projects which will further boost ARIPL's order book over the longer run. Acuite believes that though the strong order book provides healthy revenue visibility, the progress in execution of the ongoing orders will remain an important monitorable.

- **Reduction in loan against shares (LAS)-backed debt; replaced by project specific debt**

ARIPL intends to develop as a diversified EPC player with presence in Real-estate (presence across all sectors of commercial, retail, and residential), Infrastructure (including highways, irrigation, and ports), Industrial Parks (including SEZ) and Mining segment to handle the rapidly growing business opportunities. As part of its business focus on Mining, ARIPL had bid for multiple mines and won 2 major coal blocks during FY2021 and 1 in FY2022. During FY2021, ARIPL has also taken footstep into infrastructure domain by winning the Ramayapatnam Port EPC contract and Mamallapuram Road HAM Project. ARIPL also invested Rs.1,704 Cr towards

acquisition of 99.74 percent stake in Kakinada SEZ Limited from GMR group and 74 percent stake in Kakinada Gateway Port Limited. ARIPL also acquired 41.12 percent stake in Kakinada Seaports Limited by investing Rs.494Cr. During FY2020, ARIPL had outstanding LAS of Rs.175.40 Cr which increased to Rs.1,735 Cr as on March 31, 2022. While the leverage at ARIPL went up in FY2021, the additional debt has been primarily against its foray into the mining, industrial parks and infrastructure space and against assets and investments.

In order to improve the structure of its debt, ARIPL has replaced its LAS borrowings by availing project specific loan of Rs.850Cr at Kakinada SEZ level and Rs.925 Cr (loan against receivables and construction finance) at ARPL level. The main intention to avail these loans is to reduce the LAS outstanding at RPR group level so that the short term LAS loans can be converted to project specific loans which subsequently be serviced from the project cashflows. The debt against share pledge holds higher risk as it has moderate refinancing risk and shorter tenures.

- **Continued financial support from the Parent**

ARIPL has derived continuous tangible support from RPR enterprises, resulting in increased financial flexibility. RPR holds 33.51 percent (10.7 percent pledged as on March 31, 2022) stake in APL. RPR Enterprises along with other promoters and promoter group companies has infused ~Rs.730 Cr as on March 31, 2021 and Rs.1,200 Cr (of which Rs.1,150 Cr was repaid back in same year) in ARIPL by way of equity, compulsory convertible debentures (CCDs), inter corporate deposits to fund the acquisitions.

Acuité understands that any additional funds required to meet the equity obligations in ARIPL's subsidiaries would be provided by the parent or from the company's surplus cashflows. ARIPL is strategically important to the promoter and the group as a whole, as reflected by the extension of personal guarantees by Mr. P Sarath Chandra Reddy (ultimate beneficiary of RPR) and Mr. P Rohit Reddy (Director of ARIPL and Ultimate beneficiary of RPR) for the bank/Financial institutions/NBFC loans by ARIPL. Similar kind of support is there for KSEZ. RPR enterprises has along with RPR Sons advisors Pvt Ltd and ARIPL has provided corporate guarantee against the term debt raised along with personal guarantees by the promoters. Acuite believes that such financial support will continue to aid ARIPL's financial risk profile and liquidity over the medium term.

- **Significant improvement in real estate cashflows aiding the EPC inflows at standalone and consolidated level**

ARPL had way back in FY2019/FY2020 bought 25 acres of land under ARPL worth Rs.482 Cr for construction of Kohinoor Phase – I and a retail mall named Auro Retail Mall which was to be given on lease to LULU International. In March 2021, management planned not to go ahead with Auro Retail mall, instead plan phase II of Kohinoor given the healthy bookings in phase I. The company had repaid Rs.78 Cr of loan drawn down from Yes bank and returned Rs.40 Cr of security deposit to LULU International taken for the mall construction. For Kohinoor – I, the bookings have reached at 85 percent as on March 31, 2022 vs 55 percent as on September 2020. ARPL witnessed healthy bookings in Kohinoor-I and launched Kohinoor Phase-II in the land parcel kept for the retail mall. Kohinoor-II was launched in May 2021 and is expected to get completed by March 2024. The project has received bookings of 59 percent already against 15 percent of cost incurred and 17 percent of customer advances received as a % of total sale value as on March 31, 2022. Subsequent to the success of Kohinoor projects, ARIPL launched 'Regent' for which 40 percent of the area is sold against construction cost of 8 percent and customer advances of 9 percent. ARPL has in pipeline 4-5 residential projects at a larger scale wherein the procurement of land parcels or statutory approvals are under progress. Moreover, in RDL, the project commercial project has been completed and 20 percent of leases were held by APL and 62.8 percent occupied in total and as on March 31, 2022.

Weaknesses

- **Nascent stage of operations at KSEZ**

KSEZ has a land parcel (excluding land commitments to farmers/weaker housing society,

among others) of 7,069 acres (Gross area), of which around 1,500 acres is pertaining to the construction of Kona Port and the balance would be used towards the development and sale to various sector-specific entities. Of the overall available land of around 5,682 acres (other than infrastructure), KSEZ plans to sell around 4,371 acres to various sectors for setting up their facilities. KSEZ is planning to sell around 1,000 acres for setting up of refinery/petrochemical plants. While Haldia Petrochemicals Limited) had entered into a MOU with the government of AP to set up a refinery a 9.5-million metric tonnes per annum refinery for around 2,000 acres in Kakinada. KSEZ is also in talks with other petrochemical players. Similarly, KSEZ plans to sell around 2,700 acres of land for setting up pharma facilities. Of this, 423 acres has been sold to APL in FY2022 for setting up facilities under three Production Linked Incentive Schemes. This will act as an anchor for other players to come in. The other sectors, which KSEZ is focusing on, are downstream petrochemical plants, agro and food-based, and marine and animal products. KSEZ is expected to incur a capex of around Rs.1,000 Cr during FY2023-FY2026, which is likely to be funded through bank debt and internal accruals/subordinated unsecured loan/equity by availing support from the ultimate promoter. Acuite believes that traction in KSEZ land sales and its subsequent cashflows will remain key monitorable to meet its debt obligation over the medium to long term.

- **High Debt-EBITDA**

ARIPL's consolidated debt coverage (Debt/EBITDA) has been high at 12.03 times as on March 31, 2021 with total debt reaching Rs.2,090.60 Cr against EBITDA of Rs.96.03 Cr. While the debt coverage is likely to improve marginally in FY2022, it is estimated to remain moderately high given most of the projects are under construction or in the initial stages of commencement. The coverage levels are likely to improve further over FY2023-FY2025, post the completion of the on-going projects, receipt of cash flows from the residential projects, land sales from KSEZ and traction in mining operations.

- **Market Risk arising from adverse movement in stock prices**

The rating is based on pledge of shares of APL held by RPR Enterprises. The NCDs will be for period of 3 years 1 month with a bullet repayment structure (including accrued interest till date of redemption); of which 1 year has already passed by. The clauses pertaining to 'Prepayment Event' also include a drop in market capitalization of APL by 50 percent from the date of financing. In the event of such a sharp drop, the lenders are entitled to seek early repayment of the NCDs. As the rated instruments are long term in nature, the downside risk of stock will be elevated. Since the stock market is prone to volatility, occurrence of events such as slowdown in FII flows, sharp depreciation in domestic currency, political events, and other such macroeconomic events, can cause decline in stock prices. These are events which could impact the overall indices causing a general downtrend in prices. Additionally, company specific factors such as lower-than-expected performance, regulatory actions etc. can also influence movements in stock prices. Acuite believes that in view of the long term nature of the proposed NCDs and the sensitivity of the proposed NCDs to the volatility in the market price of APL, any material decline in the market capitalization of APL will impart a negative bias to the rating. Any sharp and continuous decline in share prices could potentially lead to challenges in adhering to the covenants.

ESG Factors Relevant for Rating

The infrastructure development industry has a significant social impact as it is a labour intensive business. Social issues significant for the industry are community support and development, employee safety and human rights. Governance issues relevant include board and management compensation, shareholder's rights and board diversity. The extent of direct or indirect emissions and the efficiency of deployment of vehicle fleets and heavy machinery has a considerable impact in the environmental performance of this industry. Since material costs are relatively high, strategies should be in place to reduce wastages and recycle raw materials to the extent possible to minimise the environmental impact.

ARIPL, in specific has not taken any ESG initiative, however, Aurobindo group, especially APL, has adequate policies in corporate governance category on board independence, key management retention and business conduct and ethics. The company has nine directors in its board comprising of four independent directors. APL has designated committees for CSR, Risk management, stakeholders relationship, nomination and remuneration amongst others.

Rating Sensitivities

- Timely receipt completion of its on-going projects and order book leading to projected revenue and profitability
- Higher-than-expected reliance on debt in future
- Higher-than-expected revenue and profitability
- Any significant deviation in share prices of APL

Material Covenants

None

Liquidity: Adequate

ARIPL's liquidity is adequate, marked by moderate bank limit utilization, moderate net cash accruals vis-à-vis debt obligations and continuous fund support from parent. The average fund-based working capital utilization stood around 45-50 percent for the past 12 months ended March 31, 2022. The net cash accruals have remained modest against its debt obligations in the past; same are met by support from the parent in the form of unsecured loans. The company has low unencumbered cash and bank balances over the last three years ending March 31, 2022. Acuité believes that ARIPL's liquidity will remain adequate over the medium term backed by continuous support from the parent and project cashflows.

Outlook: Stable

Acuité believes that ARIPL will continue to benefit over the medium term from its experienced management, financial support from the parent and healthy order book providing revenue visibility. The outlook may be revised to 'Positive', in case of timely execution of its order book leading to higher-than-expected operational performance. Conversely, the outlook may be revised to 'Negative' in case the shares of APL witnesses an unexpected decline in prices owing to occurrence of adverse events.

Key Financials

| Particulars | Unit | FY 21 (Actual) | FY 20 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 637.46 | 346.06 |
| PAT | Rs. Cr. | 35.67 | (6.60) |
| PAT Margin | (%) | 5.59 | (1.91) |
| Total Debt/Tangible Net Worth | Times | 2.82 | 0.89 |
| PBDIT/Interest | Times | 1.75 | 1.52 |

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

Not Applicable

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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 May 2021 | Proposed Non Convertible Debentures | Long Term | 150.00 | ACUITE Provisional AA- Stable (Reaffirmed) |
| | Non Convertible Debentures | Long Term | 400.00 | ACUITE AA- Stable (Reaffirmed) |
| | Non Convertible Debentures | Long Term | 450.00 | ACUITE AA- Stable (Assigned) |
| 10 Feb 2021 | Proposed Non Convertible Debentures | Long Term | 600.00 | ACUITE Provisional AA- Stable (Reaffirmed) |
| | Non Convertible Debentures | Long Term | 400.00 | ACUITE AA- Stable (Assigned) |
| 10 Dec 2020 | Proposed Non Convertible Debentures | Long Term | 1000.00 | ACUITE Provisional AA- Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|-------------------------|----------------|-------------------------------------|------------------|----------------|----------------|-------------------|---|
| JP Morgan Chase Bank NA | Not Applicable | Non-Convertible Debentures (NCD) | 04-02-2021 | 8.3 | 04-03-2024 | 300.00 | ACUITE AA- Stable Reaffirmed |
| JP Morgan Chase Bank NA | Not Applicable | Non-Convertible Debentures (NCD) | 30-03-2021 | 8.3 | 30-04-2024 | 337.50 | ACUITE AA- Stable Reaffirmed |
| JP Morgan Chase Bank NA | Not Applicable | Non-Convertible Debentures (NCD) | 30-03-2021 | 8.3 | 30-04-2024 | 112.50 | ACUITE AA- Reaffirmed & Withdrawn |
| JP Morgan Chase Bank NA | Not Applicable | Non-Convertible Debentures (NCD) | 04-02-2021 | 8.3 | 04-03-2024 | 100.00 | ACUITE AA- Reaffirmed & Withdrawn |
| Not Applicable | Not Applicable | Proposed Non Convertible Debentures | Not Applicable | Not Applicable | Not Applicable | 150.00 | Provisional ACUITE AA- Reaffirmed & Withdrawn |

Contacts

| Analytical | Rating Desk |
|---|--|
| Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Neha Agarwal Assistant Manager-Rating Operations Tel: 022-49294065 neha.agarwal@acuite.in | Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in |

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.

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. Ratings assigned by Acuité 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. Ratings assigned by Acuité 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 Acuité.