

Press Release

Aurobindo Realty and Infrastructure Private Limited

May 03, 2023



Rating Reaffirmed and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	427.60	ACUITE AA- Stable Reaffirmed	-
Non Convertible Debentures (NCD)	209.90	Not Applicable Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	427.60	-	-
Total Withdrawn Quantum (Rs. Cr)	209.90	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE AA-' (read as ACUITE Double A Minus)**' on the Rs. 427.60 Cr of Non-Convertible Debentures (NCDs) of Aurobindo Realty and Infrastructure Private Limited (ARIPL). The outlook is '**Stable**'.

Acuite has withdrawn rating on the NCDs of Rs.209.90 Cr of Aurobindo Realty and Infrastructure Private Limited (ARIPL) on account of early redemption. The rating withdrawal is in accordance with the Acuite's policy on withdrawal of rating. The rating is being withdrawn on account of request received from the company and NOC from the banker.

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 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, 2023) 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

Standalone (Unsupported) Rating
ACUITE BBB-/Stable

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). 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 topdown 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.209.90 Cr) taking place in April 2022. Acuité is in receipt of confirmation from the investor – JP Morgan (through its subsidiary – Copthall Mauritius Investment Limited) along with letter from National Security Depository Ltd (NSDL) on redemption on the Rs.209.90 Cr of NCDs. The NCD redemption was funded through issue 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.36,178.20 Cr as on April 28, 2023. Its investor base includes leading domestic and foreign institutional investors. As on March 31, 2023, 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 39.69 percent (RPR Enterprises was 33.51 percent). As on March 31, 2023 out of the total Promoter Group shareholding, 17.39 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 20.27 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.

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

ARIPL had an unexecuted order book of ~Rs.9,260.10 Cr as on March 31, 2023 comprising the construction of commercial and residential projects (Kohinoor Phase I & II & III, The Peral I & II, The Regent Phase I & II, Khajaguda residential) under ARPL and Plerum, infra projects. ARIPL has diversified its order book further by winning the bid for a irrigation project of Jal Jeevan Project with AP Govt and one road project in Vakalpudi worth Rs.1056.67 Cr and Rs.1031 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. Acuité believes that though the strong order book provides healthy revenue visibility, the progress in execution of the ongoing orders will remain an important monitorable.

- **Foray into Coal Mining segment**

ARIPL has forayed into mining segment by winning bids for 3 commercial mining coal blocks and 2 Rock phosphate mines - TakliJena-Bellora North and South and Urma Paharitola in the E-Auction For Coal Mines Under 11th Tranche, Beheraband North Extn. Recently in January 2023 they have won Khatamba and Kachaldhara Rockposhpate project and . Management is expected to provide further clarifications on this segment in near term once the tie-up for initial capex is completed. Management expects to start the operation by FY2024 for takli jena and for the other coal mines, may take another 2 years for operations. However, Acuité derives comfort from the strong financial flexibility of RPR and believes that any additional cash flow requirements would be supported by the parent entity. Acuité will keep monitoring subsequent developments w.r.t. this segment

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

ARPL witnessed healthy bookings in all the real estate projects and EPC contracts, For Kohinoor – I, the bookings have reached at 85 percent as on March 31, 2023 against 90 percent of cost incurred and is expected to get completed by March 2024. Kohinoor-II. Kohinoor-II was launched in May 2021 and is expected to get completed by March 2025. The project has received bookings of 80 percent already against 50 percent of cost incurred and 62 percent of customer advances received as a % of total booked value. Kohinoor-III was launched in September 2022 and is expected to get completed by March 2026. The project has received bookings of 75 percent already against 19 percent of cost incurred and 20 percent of customer advances received as a % of total booked value. The Regent Phase- I has received bookings of 76.66 percent already against 40 percent of cost incurred and 60 percent of customer advances received as a % of total booked value. Subsequent to the success of Kohinoor projects and Regent phase -I, ARIPL launched 'Pearl' Phase -I' for which 41 percent of the area is sold against construction cost of 32 percent and customer advances of 20 percent. Township Phase - I has received bookings of 80 percent already against 8 percent of cost incurred and 18 percent of customer advances received as a % of total booked value. ARPL has in pipeline 4 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 90 percent occupied in total and as on March 31, 2023.

- **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 (20.27 percent pledged as on March 31, 2023) stake in APL. RPR Enterprises along with other promoters and promoter group companies has infused around ~Rs.1000 Cr as on March 31, 2023 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. Acuité believes that such financial support will continue to aid ARIPL's financial risk profile and liquidity over the medium term.

Weaknesses

- **High Debt-EBITDA**

ARIPL's consolidated debt coverage (Debt/EBITDA) has been high at 10.63 times as on March 31, 2022 with total debt reaching Rs.3,161.86 Cr against EBITDA of Rs.277.72 Cr. While the debt coverage is likely to improve in FY2023, it is estimated to be 3.76 times in FY2023 given 50 percent of the projects are in completion stage. The coverage levels are likely to improve further over FY2024-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.

- **Nascent stage of operations at KSEZ**

KSEZ has a land 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 sale or long term lease around 5600 acres to various sectors for setting up their facilities. Out of the 5600 acres of land, 423 acres has been sold to APL in FY22 for setting up facilities under three Production Linked Incentive Schemes. 2000 acres they are planning lease out to Bluk drug park but lease agreement is yet to done. Similarly, KSEZ plans to sell around 2,000 acres of land for setting up of petrochemical plants/integrated steel plants, already Site Visit completed by large Petrochemicals, Oil and Gas players and Integrated steel Plant companies. Remaining 1200 acres which KSEZ is focusing on green ammonia and other sectors, like agro and food-based, and marine and animal product, downstream petrochemical plants. 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.

- **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 2 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. Acuité 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 covenant.

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
- Any significant debt-funded capex towards the coal mining segment impacting the overall financial metrics of ARIPL

Material Covenants

None

Liquidity Position: Adequate

ARIPL's liquidity is adequate, moderate net cash accruals vis-à-vis debt obligations and continuous fund support from parent marked by high bank limit utilization. The average fund-based working capital utilization stood around 87 percent for the past 12 months ended March 31, 2023. 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. The company has done early redemption of NCD's of Rs. 209.90 Cr which was funded through cumulative convertible debentures (CCDs) from promoters and inter- corporate deposits (ICDs) from group entities. 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	866.90	637.46
PAT	Rs. Cr.	146.67	35.67
PAT Margin	(%)	16.92	5.59
Total Debt/Tangible Net Worth	Times	1.90	2.82
PBDIT/Interest	Times	3.50	1.75

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

None

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 May 2022	Non Convertible Debentures	Long Term	112.50	ACUITE AA- (Withdrawn)
	Non Convertible Debentures	Long Term	337.50	ACUITE AA- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	100.00	ACUITE AA- (Withdrawn)
	Non Convertible Debentures	Long Term	300.00	ACUITE AA- Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	150.00	ACUITE Provisional AA- (Withdrawn)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
JP Morgan Chase Bank NA	INE0FCS07014	Non-Convertible Debentures (NCD)	05 Feb 2021	8.7	05 Mar 2024	Simple	197.00	ACUITE AA- Stable Reaffirmed
JP Morgan Chase Bank NA	INE0FCS07022	Non-Convertible Debentures (NCD)	30 Mar 2021	8.7	30 Apr 2024	Simple	230.60	ACUITE AA- Stable Reaffirmed
JP Morgan Chase Bank NA	INE0FCS07022	Non-Convertible Debentures (NCD)	30 Mar 2021	8.7	30 Apr 2024	Simple	106.90	Not Applicable Withdrawn
JP Morgan Chase Bank NA	INE0FCS07014	Non-Convertible Debentures (NCD)	05 Feb 2021	8.7	05 Mar 2024	Simple	103.00	Not Applicable Withdrawn

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About Acuité Ratings & Research

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