

Press Release

DTC Securities Limited

March 18, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.30.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating to '**ACUITE BBB**' (read as ACUITE triple B) to Rs. 30.00 Cr bank facilities of DTC Securities Limited. The outlook is '**Stable**'.

The rating on DTCS takes into account the steady business risk profile of the DTC Group. The rating is supported by the experienced management, long term lease agreement with reputed client, namely, Pantaloons and the locational advantage of the mall as well as the housing project currently underway. These strengths are however, partly offset by the moderate financial position of the group, lease agreement renewal risk with counterparty and the inherent nature of volatility in the real estate prices.

About the company

Incorporated in 1995, DTC Securities Limited (DTCS) is a Kolkata based company, engaged in carrying out the business of development and construction of residential and commercial projects. Currently, the group is headed by Mr. Satyanarayan Jalan, Mr. Dinesh Jalan and Mrs. Poonam Jalan, who have more than two decades of experience in the industry. The company has constructed and developed a shopping mall "Orchid Mall" in Kolkata which started commercial operation in 2007. The mall has a total built up area of 1 lakh square feet. The mall is fully occupied with reputed tenants namely, Pantaloons, E-Zone and Food Bazaar. Presently, Pantaloons Retail Limited (now Aditya Birla Fashion and Retail Limited (ABFRL)), who has occupied 3 stores of the mall, is the only customer of DTCS.

About the Group

Incorporated in 1995, DTC Projects Private Limited (DTCP) is engaged in carrying out the business of development and construction of residential and commercial projects. Currently, the company is headed by Mr. Ayush Jalan, Mr. Dinesh Jalan, Mr Ayush Jalan and Mrs. Poonam Jalan. The company is constructing and developing an integrated township project "DTC Southern Heights" in Kolkata. The total project area is around 1.5 million square feet which is divided into three phases of around 0.5 million square feet each.

Analytical Approach

The team has consolidated the business and financial risk profiles of DTC Securities Limited (DTCS) and DTC Projects Private Limited (DTCP) together referred to as the 'DTC Group' (DG). The consolidation is due to common management, similar line of business and cross holdings. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

The promoters of the group have more than two decades of experience in the real estate business. The extensive experience of the promoters is reflected through the long-term lease agreements with its reputed tenants. The long-term lease agreements ensure stable and timely rental income during the lease period. Acuité believes that the group will continue to benefit from its experienced management and long-term lease agreements with its reputed clientele.

Established in 1995, DTC group has a long operational track record of twenty five years in the real estate industry. The directors, Mr. Satyanarayan Jalan, Mr. Dinesh Jalan, Mr. Ayush Jalan and Mrs. Poonam Jalan have more than two decades of experience in the industry. Acuité derives comfort from the long track record and experience of the directors.

- **Steady revenue stream from reputed clientele**

Revenues of the group improved to Rs.15.56 crore in FY2020 from Rs.4.85 crore in FY2019. The growth in revenue is on account of increase of rental income from Pantaloons in DTCS and sale of 151 residential flats in DTCP in FY2020. Acuité believes that the revenue profile is expected to be stable backed by renew of lease agreement and sale of remaining flats.

- **Locational advantage**

“Orchid Mall” has the locational advantage, as it is located at Phoolbagan, Kolkata and is surrounded by affluent residential colonies. The mall does not have a shopping mall within 2 kms radius ensuring high commercial success of the mall.

On the other hand, the township project “DTC Southern Heights” is in close proximity to the Indian Institute of Management (IIM), Kolkata and it is also within 2 kilometers of the very densely populated Behala area of Kolkata. Various infrastructure facilities such as power, water telecommunication are also easily available in the area. Further, labors both skilled and unskilled are abundantly available in surrounding areas.

Weakness

- **Moderate financial risk profile**

The group's moderate financial risk profile is marked by modest networth, high gearing and moderate debt protection metrics. The tangible net worth of the group increased to Rs.16.90 Cr as on March 31, 2020 from Rs.13.90 Cr as on March 31, 2019. Gearing of the group stood high at 3.09 times as on March 31, 2020 as against 1.95 times as on March 31, 2019. The debt of Rs.52.17 Cr consists of lease rent discounting loan and term loan of Rs.33.23 Cr, unsecured long term loan of Rs.1.12 Cr and short term loan of Rs.4.50 Cr and current maturity of term loan of Rs.13.32 Cr as on March 31, 2020. The moderate debt protection metrics of the group is marked by Interest Coverage Ratio (ICR) at 1.99 times as on March 31, 2020 and Debt Service Coverage Ratio at 1.37 times as on March 31, 2020. Acuité believes that financial risk profile is expected to be moderate over the medium term.

- **Agreement renewal risk and Exposure to the risks in the Real Estate Industry**

The revenue of DTCP is derived by way of rent from Pantaloons. The lease agreement between both the parties will be expired in 2022. The counterparty risk is high in case of occurrence of any events such as changes in policy decisions by top management willing to continue their occupied space. In the event of non-renewal by existing lessee, the future cash flows will be impacted thereby translating to further weakening of debt protection indicators. Timely renewal/leasing at similar or better terms than the existing agreements will remain a key rating sensitivity factor. However, this risk is partially mitigated by the long-term relationship with reputed tenant base which will support the business profile as witnessed in the past.

The group is also exposed to the risk of volatile prices on account of frequent demand supply mismatches in the real estate industry. Given the high degree of financial leverage, the high cost of borrowing inhibits the real estate developers' ability to reduce prices.

Rating Sensitivity

- Significant delays in payment of lease rentals by the counterparty
- Improvement in financial risk profile
- Timely completion of project in DTCP

Material Covenant

None

Liquidity Profile: Adequate

The group's liquidity is adequate marked by net cash accruals of Rs.3.77 Cr as on March 31, 2020 as against long term debt repayment of Rs.1.50 Cr over the same period. DTCS follows Escrow mechanism for recovery of term loan dues. The cash and bank balances of the group stood at Rs.4.90 Cr as on March 31, 2020 as compared to Rs.0.51 Cr as on March 31, 2019. The current ratio stood at 0.90 times as on March 31, 2020 as compared to 0.94 times as on March 31, 2019. The group has availed loan

moratorium. Acuité believes that going forward the group will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on DTC Group (DG) will remain 'Stable' over the medium term on account of experienced management, steady cash flows from lease rentals and the presence of escrow mechanisms for loan from bank. The outlook may be revised to 'Positive' in case of a sharp increase in the DSCR due to better-than-expected lease rentals. The outlook may be revised to 'Negative' if a significant dip in the lease rentals or re-negotiations leading to lower cash flows impacting the debt protection metrics or unexpected termination of existing leases or substantial debt-funded capital expenditure or higher than expected impact on rentals and occupancies on account of COVID19 or any significant investments to other group entities or any sharp delays in project completion leading to cost overruns.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	15.56	4.85
PAT	Rs. Cr.	2.97	2.52
PAT Margin	(%)	19.11	51.93
Total Debt/Tangible Net Worth	Times	3.09	1.95
PBDIT/Interest	Times	1.99	2.44

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	5.27	4.27
PAT	Rs. Cr.	1.61	1.23
PAT Margin	(%)	30.55	28.80
Total Debt/Tangible Net Worth	Times	2.41	2.02
PBDIT/Interest	Times	1.68	1.69

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

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>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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
Lease Rental Discounting	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB/Stable (Assigned)

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About Acuité Ratings & Research

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