

Press Release

Rare Equity Private Limited

August 24, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	500.00	ACUITE AA+ CE Reaffirmed Rating Watch with Developing Implication	-
Total Outstanding Quantum (Rs. Cr)	500.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE AA+ (CE)**' (read as **ACUITE double A plus; Credit Enhancement**) on the Rs. 500.00 Cr. Non- Convertible Debentures of Rare Equity Private Limited (REPL).

The rating has, however, been placed under watch with developing implications to understand the implication of the demise of Mr. Rakesh Jhunjunwala, the key shareholder of REPL on the rated transaction going forward. The rating takes into account the credit enhancement in the form of a trustee-administered structured payment mechanism backed by pledge of shares and personal guarantee of Mr. Rakesh Jhunjunwala (deceased) and Mrs. Rekha Jhunjunwala (spouse). Acuite will seek clarity on the succession plan in REPL and evaluate revisions in the structured payment mechanism, if any. The rating would be kept under watch until such clarifications are obtained.

The rating continues to consider the support from the resourceful promoters of the rated entity. The rating further derives comfort from the strength of the structure which has laid out stringent conditions on identification of securities to be pledged, the times cover to be maintained and covenants governing stock/ sector concentration, top-up scenarios and conditions, payment mechanism, besides mandating non-disposal undertaking (NDU) on issuers partial ownership in shares of acquiring company. The guarantors can pledge the shares that are part of the 'BSE 100' which should form 80% of the total pledge portfolio. Accordingly, security cover is kept at 2.10 times of the initial principal value of the facility amount and going forward the level of security cover of the aggregate outstanding principal (principal and interest accrued) of the facility will be in the range of 1.75-2.45 times. REPL shall make payments of interest and principal amounts at the maturity as per the facility documents by at least T-7 days to the First Tranche Final Redemption Date and the Second Tranche Final Redemption Date. In case of non-payment by REPL, the debenture trustee would be entitled to and have the option to invoke the pledge and sell or transfer the Collateral Shares (or any portion thereof) to realize funds to the extent of such shortfall. The funds available in the Debenture Servicing Account can be invested in fixed deposits with any branch of Barclays Bank PLC acceptable to the Initial Debenture Holders, pending their utilization towards servicing the Debentures.

Acuité has also drawn comfort from the substantial unencumbered guarantors' net worth (market value of listed investments net of borrowings) in relation to the other pledge based borrowings as on March 31, 2022, which ensures that adequate cushion is available in order to absorb unexpected shocks that may arise due to market volatility.

About the company

Mumbai based, REPL was incorporated in 1993 under the name of Marganta Textiles Private Limited. In the same year, Mr. Rakesh Jhunjunwala invested in the company. He became the major shareholder as well as the promoter of the company. Subsequently in 2009, the name of the company was changed to its present name of Rare Equity Private Limited. The company is engaged in investment of funds in any private, government or public authority or company. REPL invests in the form of shares, stocks, bonds, debentures or securities. In FY2021 Under the rated transaction, REPL had acquired some stake in Zydus Animal Health and Investments Limited (Zydus) through Zenex Animal Health India Private Limited (Zenex) by the way of slump sale. REPL will be holding 28.90% stake in Zydus AHL through Zenex for an investment of Rs.700 Cr. Out of which, Rs.200 Cr. shall be infused in REPL by Mr. Jhunjunwala and rest will be funded via NCDs (against share pledge structured transaction) of Rs.500 Cr. in two tranches i.e. A: Rs.300 Cr. and B: Rs.200 Cr. Tranche A and B are zero coupon bonds having maturity of 3 years 1 day and 4 years 1 day, respectively.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of REPL to arrive at the standalone rating and has further factored in the benefits arising from the structured payment mechanism while arriving at the rating. The suffix (CE) indicates credit enhancement arising from the strength of the structure and the underlying pledge of highly liquid securities. Strict and continued adherence to the structure is central to the rating.

Standalone (Unsupported) Rating: ACUITE BBB-

Key Rating Drivers

Strength

- **Strength of the underlying structure**

The transaction is based on the shares pledge structure as well as guaranteed by Mr. Rakesh Jhunjunwala and Mrs. Rekha Jhunjunwala. The guarantors can pledge the shares either from pre-approved shares list provided by the subscriber or from the shares that are part of the 'BSE 100' which should form minimum 80% of the total pledge portfolio. Stocks outside 'BSE 100' are capped at 20%. The pledge portfolio is designed in such a way that:

- i. there should minimum five stocks maintained in the basket,
- ii. contribution of single stock is capped at 30% of the total pledge basket,
- iii. sectoral contribution is capped at 50% of the total pledge portfolio,
- iv. Shares from single promoter holding group should not exceed 40% (except TATA group, which is capped at 55%).
- v. Liquidity days should not exceed 3 days

The level of guarantee is such that the aggregate value of pledged shares at Initial Share Price shall be at least equal to 2.1 times of the Aggregate NCD Outstanding Amount. There will be a Share Pledge Agreement specifically mentioning unconditional and irrevocable rights to the Debenture Trustee to sell shares out of the Pledged basket as may be required to bridge any shortfall in the NCD Servicing Account. The Credit Enhancers shall also provide personal guarantee, favouring Debenture Trustee to specifically provide unconditional and irrevocable obligation to fund any shortfall in the NCD Servicing Account when called upon by the Debenture Trustee. There will also be a Non Disposal Undertaking (NDU) on 49% of Issuer's ownership (i.e. 28.9%) in shares of the Acquiring Company. The Debenture Trustee shall determine the portfolio value daily on the basis of the volume-weighted average share price of that particular day. In the event the Issuer wishes to sell any shares in the acquiring Company, permissible after 12 months from the Pay-in date, NDU to be waived off by the NCD Holders subject to additional security being added to the Portfolio to increase

the Portfolio Value to 2.33 times of the Aggregate NCD outstanding amount. The top-up and top-down conditions will also be revised to 2.00 times and 2.66 times from 1.75 time and 2.45 times of the Aggregate NCD outstanding amount respectively. REPL shall make payments of interests and principal amounts due at the end of the tenor. The Issuer would be required to deposit the full servicing amount in the NCD servicing account at least 7 days prior to the first tranche final redemption date and the second tranche final redemption date (each such date, a "Guarantor Funding Date"), the Guarantor agrees to fund the Debenture Servicing Account to the extent of the shortfall. In the event the Guarantor fails to fund the Debenture Servicing Account as specified herein above on the Guarantor Funding Date, the Debenture Trustee (acting on the instructions of the Debenture Holders provided by way of a Majority Resolution), would be entitled to and have the option to invoke the pledge and sell or transfer the Collateral Shares (or any portion thereof) to realize funds to the extent of such shortfall. The funds available in the Debenture Servicing Account can be invested in fixed deposits with any branch of Barclays Bank PLC acceptable to the Initial Debenture Holders, pending their utilization towards servicing the Debentures. Acuité believes that the proposed structure provides adequate covenants to safeguard the interest of the lender. The lender has enough buffers available to initiate corrective action and mitigate the risks arising out of non-adherence to the proposed terms and conditions.

- **Promoters with high network**

The underlying structure of the transaction would be benefitting from the substantial unencumbered high net worth of the promoters. Acuité believes that the resourceful promoters will ensure that adequate buffer is available to absorb unexpected shocks arise from the volatility in the capital market.

Weakness

- **Susceptibility to volatility in capital market**

By virtue of being a share pledge based structure, it is exposed to the inherent volatility associated with capital markets. The performance of stocks listed on equity market is influenced by economic, political, other macroeconomic factors such as GDP, growth rate, inflation and expected movement in interest rates and also social factors that guide investor sentiments. Global factors also influence the movements in the domestic market. Acuité notes that any downturn in the capital markets may directly impact the value of the pledge portfolio thereby putting pressure to replenish the security cover by providing additional top-ups.

Assessment of Adequacy of Credit Enhancement

The structure provides for adequate covenants to safeguard the interest of the lenders and has adequate buffers available to initiate timely corrective action and effectively mitigate the risk arising out of any adverse market movements.

Rating Sensitivity

- Adherence to stipulations mandated under the structure
- Decline in unencumbered net worth of the guarantors

Material Covenants

- Security cover to be maintained at 2.10 times
- Liquidity days not to exceed 3 days

Liquidity: Adequate

Considering that REPL is equity funded, there are no existing debt servicing requirements. Further, the rated debt under the structure of Rs.500 crore shall be in the form of zero coupon bonds, fully repayable at the end of tenure. The repayment of the NCDs is not linked to the cash flows of either REPL or Zydus. Considering that the structure is backed by highly liquid securities having sufficient cover and substantial unencumbered guarantor net worth, the liquidity assessment of the structure is adequate.

Outlook:

Not Applicable

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	748.17	43.75
Total Income*	Rs. Cr.	(22.70)	(0.13)
PAT	Rs. Cr.	(23.99)	(0.52)
Networth	Rs. Cr.	68.36	43.63
Return on Average Assets (RoAA)	(%)	(6.06)	(1.18)
Return on Average Net Worth (RoNW)	(%)	(42.85)	(1.18)
Total Debt/Tangible Net Worth (Gearing)	Times	9.95	0.00
Gross NPA	(%)	NA	NA
Net NPA	(%)	NA	NA

*Total income equals to Net interest income plus other income

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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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
08 Jul 2022	Non Convertible Debentures	Long Term	300.00	ACUITE AA+ (CE) Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	200.00	ACUITE AA+ (CE) Stable (Reaffirmed)
08 Jul 2021	Non Convertible Debentures	Long Term	200.00	ACUITE AA+ (CE) Stable (Assigned)
	Non Convertible Debentures	Long Term	300.00	ACUITE AA+ (CE) Stable (Assigned)
30 Jun 2021	Proposed Non Convertible Debentures	Long Term	200.00	ACUITE Provisional AA+ (CE) Stable (Assigned)
	Proposed Non Convertible Debentures	Long Term	300.00	ACUITE Provisional AA+ (CE) Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	INE019Z07023	Non-Convertible Debentures (NCD)	07-07-2021	Not Applicable	07-08-2025	200.00	ACUITE AA+ CE Reaffirmed Rating Watch with Developing Implication
Not Applicable	INE019Z07015	Non-Convertible Debentures (NCD)	07-07-2021	Not Applicable	07-08-2024	300.00	ACUITE AA+ CE Reaffirmed Rating Watch with Developing Implication

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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.

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