



Press Release
Rare Equity Private Limited
August 22, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	500.00	ACUITE AA+ CE Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	500.00	-	-

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 outlook is '**Stable**'.

Rationale for Rating

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 June 30, 2024, 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, Late Mr. Rakesh Jhunjhunwala 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, commodities 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.

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.

Key Rating Drivers

Strength

Strength of the underlying structure

The transaction is based on the shares pledge structure as well as guaranteed by Mrs. Rekha Jhunjhunwala. 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 topups.

Assessment of Adequacy of Credit Enhancement (Applicable only for CE Ratings)

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.

ESG Factors Relevant for Rating

Rare Equity Private Limited (REPL), revenue stream accrues from the financial services sector. Adoption and upkeep of strong business ethics is a sensitive material issue for the financial services business linked to capital markets to avoid fraud, insider trading and other anti-competitive behaviour. Other important governance issues relevant for the industry include management and board compensation, board independence as well as diversity, shareholder rights and role of audit committee. As regards the social factors, product or service quality has high materiality so as to minimise misinformation about the products to the customers and reduce reputational risks. For the industry, retention, and development of skilled manpower along with equal opportunity for employees is crucial. While data security is highly relevant due to company's access to confidential client information, social initiatives such as enhancing financial literacy and improving financial inclusion are fairly important for the financial services sector. The material of environmental factors is low for this industry. The company's board comprises of a total of 5 directors out of which two are independent directors and three are non-executive directors. REPL maintains adequate disclosures with respect to the various board level committees mainly audit committee, nomination and remuneration committee along with stakeholder management committee. REPL also maintains adequate level of transparency with regards to business ethics issues like related party transactions, investors grievances, litigations, and regulatory penalties for the group, if relevant.

Rating Sensitivity

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

All Covenants (Applicable only for CE & SO Ratings)

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.

Liquidity Position 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: Stable

Acuité believes that REPL will maintain 'Stable' credit risk profile over the medium term supported by its wellversed promoters in the capital markets. The outlook may be revised to 'Positive' in case of Increase in unencumbered percentage of the net worth. Conversely, the outlook may be revised to 'Negative' in case of sharp deterioration in the value or level of unencumbered investments.

Other Factors affecting Rating None

Key Financials - Standalone / Originator

Particulars	Unit	FY24 (Actual)	FY23 (Actual)
Total Assets	Rs. Cr.	998.51	907.90
Total Income*	Rs. Cr.	36.35	(43.42)
PAT	Rs. Cr.	(13.61)	(43.86)
Net Worth	Rs. Cr.	209.40	223.01
Return on Average Assets (RoAA)	(%)	(1.43)	(4.84)
Return on Average Net Worth (RoNW)	(%)	(6.30)	(17.91)
Debt/Equity	Times	2.99	2.77
Gross NPA	(%)	-	-
Net NPA	(%)	-	-

*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>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' 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
23 Aug 2023	Non-Coverible Debentures (NCD)	Long Term	200.00	ACUITE AA+ (CE) Stable (Reaffirmed)
	Non-Coverible Debentures (NCD)	Long Term	300.00	ACUITE AA+ (CE) Stable (Reaffirmed)
24 Aug 2022	Non-Coverible Debentures (NCD)	Long Term	200.00	ACUITE AA+ (CE) (Ratings Under Watch)
	Non-Coverible Debentures (NCD)	Long Term	300.00	ACUITE AA+ (CE) (Ratings Under Watch)
08 Jul 2022	Non-Coverible Debentures (NCD)	Long Term	200.00	ACUITE AA+ (CE) Stable (Reaffirmed)
	Non-Coverible Debentures (NCD)	Long Term	300.00	ACUITE AA+ (CE) Stable (Reaffirmed)
08 Jul 2021	Non-Coverible Debentures (NCD)	Long Term	200.00	ACUITE AA+ (CE) Stable (Assigned)
	Non-Coverible Debentures (NCD)	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	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	INE019Z07023	Non-Convertible Debentures (NCD)	07 Jul 2021	Not avl. / Not appl.	07 Aug 2025	Simple	200.00	ACUITE AA+ CE Stable Reaffirmed
Not Applicable	INE019Z07015	Non-Convertible Debentures (NCD)	07 Jul 2021	Not avl. / Not appl.	07 Aug 2024	Simple	300.00	ACUITE AA+ CE Stable Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Nivedita Gokul Associate Analyst-Rating Operations Tel: 022-49294065 nivedita.gokul@acuite.in	Varsha Bist Associate Vice President-Rating Administration 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.

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