

## Press Release

**Balaji Cars Private Limited**

**May 05, 2022**

## Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>Non Convertible Debentures (NCD)</b>	160.00	Provisional   ACUITE C   Assigned	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	160.00	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

## Rating Rationale

Acuite has assigned the long-term rating of '**Provisional ACUITE C**' (read as **Provisional ACUITE C**) on the Rs. 160.00 crore Non-Convertible Debentures (NCD's) of Balaji Cars Private Limited (BCPL).

The rating on the proposed Rs. 160.00 Cr NCDs is provisional and the final rating is subject to the following documentation requirements:

1. Receipt of the executed trust deed.
2. Receipt of the final term sheet and confirmation from the trustee regarding compliance with all the terms and conditions.

### Rationale for assignment

The rating takes into account the continuing default in the repayment of principal and payment of interest on the loans availed by the company in the past. However, the non-convertible debentures issued by the company shall ensure part repayment of these loans. Although, the default towards the balance loan amount persists, thereby constraining the rating assignment.

### About the Company

BCPL is a Mumbai based company incorporated in the year 2002. The company until 2015-16 was an authorized automobile dealer of Tata Motors. BCPL is promoted by Mr. Shysunder Bhagwanram Jangid. In FY2022, BCPL entered into a development management agreement with Ashar Group to construct a mixed-use real estate project at Thane, near Ghodbunder road. The project construction is expected to commence in June 2022 with total estimated project cost of Rs. 682 Cr. Further, the project has a total saleable area of 4.49 lakh sq. ft, of which 3.94 lakh is allocated for residential, 0.40 lakh towards commercial and the rest for retail.

### Analytical Approach

Acuite has considered the standalone business and financial risk profile of BCPL.

## Key Rating Drivers

### Strengths

- **Benefits derived by the project due to its association with the Ashar Group:**

The company entered into a development management agreement with Ashar Group, to construct a mixed-use real estate project over the freehold land measuring 15,038 sq.mt at Thane, near Ghodbunder road, owned by BCPL. In accordance with the agreement, Ashar Group shall invest Rs. 15.00 Cr in the form of development advance and will be allowed 20 percent development management fees on the total sales, as consideration to carry out development, marketing & sales of the project.

Mr. Ajay Ashar founded Ashar Group in 2001. The group focuses on construction of residential and commercial projects including IT parks mainly in Thane & Central part of Mumbai. The Group has a proven track record of delivering over 4 million sq. ft. of sale area across affordable, mid-market and luxury segment with an additional ~3.2 lakh sq. ft. of on-going projects. Further, Ashar Group has a strong foothold and brand equity in the Thane market. Acuité believes that the company will benefit from the developer - Ashar Group's, brand presence around the Thane market, experience in the real estate sector and the extended financial support.

- **Strategic location of the project:**

The project is strategically located and is accessible from Ghodbunder road, which connects Thane to the western suburbs in Mumbai. In addition, the project is 5.5 kms and 1 km away from Thane station and the upcoming Manpada Metro station respectively. Further, the presence of other prominent residential townships within the area including Puraniks city, Reserva, Lodha Splendora, Hiranandani Estate designate Thane as an emerging alternate residential and commercial business district of Mumbai.

### Weaknesses

- **High dependence on customer advances and execution risk:**

The aggregate construction cost (including land cost) accounts for Rs. 682 Cr, which shall be funded through NCD's of Rs. 160 Cr, development deposit from Ashar Group of Rs. 15 Cr and the rest through customer advances.

Since, customer advances form a substantial portion of the total funding requirement, timely receipt of the same is of paramount importance, any volatility in sales and collection traction would adversely impact project completion. Further, reduced collections will result into deterioration in the financial risk profile and liquidity.

Additionally, the project is in nascent stages of planning and financing. Regulatory approvals required for project commencement is also pending, timely receipt of which remains critical. Besides, timely project launch is subject to the settlement of the existing tenants over the project development land.

Acuite believes the project is exposed to significant execution risk as it is at its very outset; furthermore, the higher dependence on customer advances augments the already high execution risk.

- **Susceptibility to real estate cyclical and regulatory risks:**

The real estate industry in India is highly fragmented with most of the real estate developers, having a city specific or region-specific presence. The risks associated with the real estate industry is the cyclical nature of the business (drop in property prices) and interest rate risk, among others, which could affect the operations. However, the sharp recovery in demand post Covid has improved pricing flexibility, particularly for completed projects. Regardless, going forward developers ability to increase prices without adversely impacting sales on account of increase in raw material prices and the extent of new launches will be a key for the industry.

- **Past instances of delay in debt servicing observed in facilities not rated by**

**Acuite:**

BCPL currently has outstanding loans of Rs. 91.52 Cr availed from various Banks and Financial Institutions. Of the aggregate defaulted loan, Rs. 75.00 Cr shall be repaid through the proceeds of NCD and development deposit. However, balance debt of Rs. 12.78 Cr will remain unsettled in the books of BCPL. Hence, the default in the repayment of loans continue, despite the issue of NCDs.

**Rating Sensitivities**

- Timely commencement of project construction.
- Going forward, there is adequate sales and collection traction ensuring timely project completion.

**Material covenants**

- Development management fees payable to Ashar Group shall be restricted at 6.75 percent of sales until the closure of NCDs.
- Debt service reserve account (DSRA) for one quarter's servicing shall be created on the first day of the quarter end in which the servicing is due.

**Liquidity Position: Poor**

The liquidity profile of BCPL during FY2022 is poor marked by delays in the repayment of loans to banks and financial institutions as on March 31, 2022. The loans have been classified as 'Non-performing assets' (NPA) by banks and financial institutions since 2015. Further, Acuité expects BCPL's liquidity profile to remain poor subsequent to the issue of the proposed NCD, since the default towards the balance loan amount of Rs. 12.78 Cr shall continue, post repayment of Rs. 75 Cr.

**Outlook:**

Not applicable

**Key Financials**

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(1.31)	(1.57)
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	(2.46)	(2.60)
PBDIT/Interest	Times	(145.10)	0.00

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

None.

**Any other information****Supplementary disclosures for Provisional Ratings****A. Risks associated with the provisional nature of the credit rating:**

1. Lack of third party monitoring of compliance in absence of executed trust deed and no finalized terms in absence of final term sheet
2. In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

**B. Rating that would have been assigned in absence of the pending steps/**

**documentation:**

The rating would be equated to the standalone rating of the entity: ACUTE C

**C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued:**

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Real Estate Entities: <https://www.acuite.in/view-rating-criteria-63.htm>

**Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

**Rating History:**

Not applicable.

**Annexure - Details of instruments rated**

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	160.00	Provisional   ACUTE C   Assigned

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Aruna Ganesh Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:aruna.ganesh@acuite.in">aruna.ganesh@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### 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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