Texmaco Infrastructure & Holdings Limited

July 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	22.37 (Reduced from 23.13)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)**
Long Term Bank Facilities	-	-	**Withdrawn**
Short Term Bank Facilities	-	-	**Withdrawn**
Total Bank Facilities	**22.37 (Rs. Twenty-Two Crore and Thirty-Seven Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to Texmaco Infrastructure & Holdings Limited (Texmaco) factors in the moderation in company's financial credit profile in FY21 (refers to period between April 01, 2020 and March 31, 2021) marked by vacancies in its leased out property resulting in shortfall in lease rental income vis-a-vis its lease rental debt repayments and non-realization of interest income from loans and ICDs given to group companies. The company is currently in the process of leasing out the vacant premises to new lessees which is taking longer than expected in view of uncertainties associated with Covid-19. The rating also takes note of delay in receipt of approvals for developing a large sized residential cum retail real estate development project at Kamla Nagar, New Delhi. Although, the project has got deferred and is now expected to commence only from Q3FY23, the risk of large sized project remains over the medium term. The ratings take into account limited track record of the group in real estate development and uncertainties associated with developing a large size real estate project including construction and salability risk. The rating also takes note of prime location of the project, equity proposed to be funded out of the company's land monetization proceeds and substantial receivable cover for the project.
Texmaco continues to derive strength from experienced promoters, comfortable capital structure, healthy investment profile with holdings in major group companies, additional revenue streams from dividend/ interest income and hydro project on which there is no debt and financial flexibility being derived from being part of Adventz group.
However, the ratings continue to be constrained by the risk of diminution in value of investments, vulnerability of cash flows to availability of water in the hydro power unit and renewal of rental contracts in leased properties.

Key Rating Sensitivities
Positive Factors

- Substantial progress in sales and collection from the proposed residential cum retail development at Kamla Nagar, Delhi.
- Increase in rental income by 20% on sustained basis along with occupancy of 100% on a continuous basis

Negative factors

- Delay in monetization of land parcels to fund equity infusion leading to availment of project debt by the company.
- Further moderation in Occupancy ratio to 50% and below or significant decline in overall projected revenue profile of the company as a result of waiver in rentals or escalations or due to non-renewal of lease agreements.

Detailed description of the key rating drivers
Key Rating Strengths
Experienced Promoters
Texmaco belongs to Mr. S. K. Poddar, faction of the K. K. Birla group, which was subsequently rechristened as Adventz Group. Adventz is an established business group in the country having interest in fertilizers, chemicals, financial services, real estate and sugar. Mr. Poddar, son-in-law of Late Mr. K. K. Birla, is at the helm of affairs of the company.

Comfortable capital structure and debt coverage indicators
The capital structure is comfortable with overall gearing ratio of 0.08x as on March 31, 2021 (0.09x as on March 31, 2020). Total Debt/GCA remained comfortable at 2.51x as on March 31, 2021 as against 2.85x as on March 31, 2020. Interest coverage also remained comfortable at 3.40x in FY21 (5.63x in FY20).

Healthy investments profile

Texmaco has a healthy networth base largely invested in land and buildings, mutual fund investments and strategic investments in group companies. Further, it also provides loans and advances to group entities and non-group entities. In case of outside entities, the company gives loan on the basis of Texmaco group's past and relationship with the outside party. As on Mar 31, 2021, the company had investments of Rs.110.70 crore in land bank and properties, Rs.160.42 crore in equity instruments, Rs.1.70 crore in Mutual Funds and has provided loans and advances of Rs.69.11 crore to subsidiaries and body corporates. The market value of such quoted equity instruments was Rs.302.03 crore as on June 18, 2021 (as against Rs.268.34 crore as on Mar 22, 2021 and Rs.208.43 crore as on June 22, 2020) indicating a healthy investment portfolio. During FY21, Texmaco has realized around Rs. 1.24 cr out of total booked interest and dividend income of Rs. 9.55 cr in FY21.

Key Rating Weaknesses

Shortfall in lease rental income against its debt repayments

The company has monthly rent collection of around Rs. 0.36 cr against LRD EMI repayment instalment of Rs. 0.41 cr on monthly basis. The shortfall is on account of few vacancies that happened during Q4FY21 as a result of COVID and economic slowdown in the country. The shortfall in lease rental is being funded from income from hydropower project and interest and dividend income. The company is currently in the process of leasing out the vacant premises to new lessees which is taking longer than expected in view of uncertainties associated with Covid-19.

Dip in financial performance in FY21

Texmaco holds various investments in the group and derives income from three segments, i.e. interest & dividend income from its investments (55% of total income in FY21), rental income (31% of total income), hydro power (14% of total income). Interest income is derived mainly from Inter Corporate Deposits (ICDs) given both to group and outside group entities. The rental income is derived from Texmaco's "Global Business Park" property at Gurgaon and Birla Textiles at New Delhi. As on March 31, 2021, the total leased out area of the property is 48,832 sq. ft (PY: 88,719 sqft). During FY21, total operating income decreased by around 23% from Rs.27.05 crore in FY20 to 20.72 crore in FY21 primarily due to decrease in rental income from Rs. 9.72 cr in FY20 to Rs. 6.52 cr on account of waiver given to tenants and increased vacancy during the year.

Further, the company evacuated and supplied 8.20 million units (mU) in FY21 as against 7.40 mU in FY20 of power from its 3 MW Mini Hydro Power Project at Neora, District Darjeeling in West Bengal.

Further, PBILDT margin also moderated from 56.29% in FY20 to 51.23% in FY21 on account of decrease in TOI and fixed nature of expenses. However, during FY21, PAT margin improved significantly from 27.20% in FY20 to 45.71% on account of non-operating income of Rs. 7.07 cr which pertains to income from sale of land parcel and investment.

Limited track record of the group in real estate market

Although, the group has developed residential and commercial spaces in different parts of the country and few overseas projects, they have limited track record in the development and marketing of real estate in New Delhi market. Since, Real estate sector is highly susceptible to economic cycles, the ability of the company to sell the large inventory in the proposed development will also depend on the demand trends in the real estate market which are vulnerable to cyclical factors.

Project development and saleability risk

The project encompasses development of saleable area of around 26.40 lakh square feet (lsf) at an estimated cost of Rs.1675 crore funded through equity of Rs.400 crore and customer advances of Rs.1275 crore. Around 76% of the project cost is projected to be financed through customer advances thereby exposing the project to risks/ concerns like liquidity issues, project delays and cost over-runs. Expected revenue from the project is estimated at Rs.4095 crore. The project is at nascent stage and requisite approvals (like, fire & emergency, water, electricity, height clearance, environmental clearance etc) are currently in progress and are expected by Sep 2023 as per management of the company. The nascent stage of the project exposes the company to high execution, funding and market risks. Further, the scale of the proposed project and its funding requirements are substantial as compared to the current scale of operations of the company. Texmaco is in the process of monetizing their land parcels located at Kamla Nagar, Delhi and expect to garner Rs.350-Rs.400 crores which will be used for the development of this project as equity infusion. Presently, the company has no plans to avail any debt for this project.

Regulatory risks

Real estate projects are prone to varying degrees of uncertainty, both at the macro-level, which affects the economy as a whole and at the sector level. The projects are prone to local, state, and national laws and regulations (governing acquisition, construction and development of land, etc.). Failure to comply with such rules and regulations often lead to delays or in the worst case, complete closure of the project; all of which may lead to a complete or partial loss of capital invested.

Risk of non-renewal of rent agreement
Texmaco derives majority of its income from rent received from its property leased out in Delhi. The rent agreement is for 9 years and Texmaco is exposed to non-renewal of agreement post expiry of the contract. However, the contracts have already been renewed in the past with contracted escalation which mitigates the risk to a certain extent.

Liquidity: Adequate
Adequate liquidity characterized by sufficient cushion in GCA of Rs. 11.61 crore vis-à-vis repayment obligations of Rs. 3.47 crore in FY21 and moderate cash balance of Rs.0.75 crore as on March 31, 2021. Texmaco has liquidity in the form of liquid investments of Rs.1.70 crore as on March 31, 2021 and low debt servicing obligation. The company has monthly rent collection of around Rs. 0.36 cr against LRD EMI repayment instalment of Rs. 0.41 cr, the shortfall is being met by income from income from hydropower sale and interest and dividend from strategic investments. Further during FY22, Magnacon Electricals India Ltd group associate of Texmaco is expected to pay Rs. 3-4 cr towards outstanding interest on ICDs in Q2FY22. Besides, the company enjoys financial flexibility by being part of Adventz Group.

Analytical approach: Standalone
Applicable criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology for debt backed by Lease Rental Discounting (LRD)
Liquidity Analysis of Non-Financial Sector Entities
Rating of loans by investment holding companies

About the Company
Texmaco was incorporated as Textile Machinery Corporation Limited in September, 1939. Currently the company derives its major income from leased properties, dividend & interest income from strategic investments and operation of a 3 MW Mini Hydro Power Project at Neora, District Darjeeling in West Bengal.
Texmaco is part of the Adventz group, a faction of the erstwhile K. K. Birla group. After the demise of Dr. K. K. Birla, an eminent industrialist, Mr. Saroj Kumar Poddar (son-in-law of Dr. K. K. Birla), has been appointed as the Chairman of the company w.e.f. September 11, 2008.

Brief Financials (Rs. Crore)	FY20 (A)	FY21 (A)
Total Operating Income	27.05	20.72
PBILDT	15.23	10.61
PAT	7.36	9.47
Overall gearing (times)	0.09	0.08
Interest coverage (times)	5.63	3.40

A: Audited
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Available
Rating History (Last three years): Please refer Annexure-2
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	0.00	Withdrawn
Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	-	-	Nov 2026	22.37	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE A-; Stable (24-Mar-21) 2)CARE A+; Stable (03-Jul-20)	1)CARE A+; Stable (04-Jul-19)	1)CARE A+; Stable (25-Sep-18)
2.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A1 (24-Mar-21) 2)CARE A1+ (03-Jul-20)	1)CARE A1+ (04-Jul-19)	1)CARE A1+ (25-Sep-18)
3.	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	22.37	CARE BBB+; Stable	-	1)CARE A-; Stable (24-Mar-21) 2)CARE A+; Stable (03-Jul-20)	1)CARE A+; Stable (04-Jul-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Name: Mr. Mradul Mishra
Contact no.- +91-22-6837-4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name: Mr. Punit Singhania
Contact No. - 033-4018 1620
Email id – punit.singhania@careratings.com

Business Development Contact
Name: Mr. Lalit Sikaria
Contact No. - 033-4018 1607
Email id – lalit.sikaria@careratings.com

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