Model Economic Township Limited

September 06, 2022

Rating

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	250.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total Facilities	**250.00 (₹ Two hundred fifty crore only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facility of Model Economic Township Limited (METL) continues to derive comfort from the backing of an experienced, strong, and resourceful promoter group – the Reliance group (led by Mukesh D Ambani), with Reliance Industries Limited (RIL; rated 'CARE AAA; Stable/CARE A1+') being its ultimate parent. The rating also considers the continued financial support from the promoter group in terms of an unconditional and irrevocable corporate guarantee (CG) provided by RIL for the bank guarantee limits availed by METL and the allotment of zero coupon optionally fully convertible debentures to the promoter group to majorly retire the outstanding unsecured loans from a fellow subsidiary. The rating further derives strength from the strategic location of the project, the considerable asset held by METL in the form of land parcels that are expected to be monetised over the long tenure, the improved booking status of the project, along with its strong liquidity.

The above credit strengths are, however, partially offset by the risk associated with the execution and marketing of the project of such a huge scale as well as the cyclicality and seasonality associated with the real estate and infrastructure industry.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade: Not applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any deterioration in the credit profile of RIL.
- Discontinuation of financial and need-based support from the promoter group.

Detailed description of the key rating drivers

Key rating strengths

Strong and resourceful promoter group: METL is a part of the Reliance group (led by Mukesh D Ambani). The holding company of METL, i.e., Reliance Ventures Limited (RVL) is a wholly owned subsidiary of RIL, the flagship company of the Reliance group. RIL is India's largest private sector enterprise with businesses across the energy and materials value chain, along with a significant and growing presence in the consumer-facing retail and telecom sectors. The presence of such a strong and resourceful ultimate parent with vast experience and a track record of support lends strong backing and leverage in terms of the completion of the large-scale project being undertaken by METL.

Continued financial support from the promoter group: As on March 31, 2022, METL had two tranches of zero coupon optionally fully convertible unsecured debentures amounting ₹4,126 crore for a tenor of 15 years and ₹2,150 crore having a tenor of 20 years issued to group entity of RIL. Accordingly, METL was left with unsecured loans of ₹435 crore as on March 31, 2022. The entire land acquisition by the company as well as its development over the years has been principally done through promoter funding.

The company utilises a bank guarantee (BG) facility for submission to various departments of the Haryana Government (irrigation department, director general of town and planning, electricity department, etc) for obtaining permissions and other approvals to complete land development and related infrastructure. The BG is backed by the unconditional and irrevocable CG of RIL. This apart, the company does not have any external debt.

Strategic location of the project: The Model Economic Township (MET) project is within the influence area of the Delhi-Mumbai Industrial Corridor (DMIC) project and the Government of Haryana has recommended it as a node of the DMIC. The project is connected to the Western Dedicated Freight Corridor (DFC). Due to its strategic location, the company is well-positioned concerning connectivity and trade and is expected to attract various companies from several industries such as footwear, warehouses, logistics, etc.

Significant asset held for monetisation with good booking status of the project: Out of approximately 7,800 acre of owned land, METL has received environmental clearance for approximately 2,480 acre. As on March 31, 2022, the company has total license area of 1,764 acre and is carrying out developmental work on around 1,100 acre of such land. Out of the said license area, the company has net saleable area of around 980 acre, of which around 51% of the land area had been booked up to March 31, 2022. METL monetizes the land parcels through selling undeveloped land parcels or developing the industrial colonies and selling the developed plots in licensed colonies as per the contract terms. During FY22 and Q1FY23, METL sold around 114 acre and 21 acre of developed land parcels, respectively.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Liquidity: Strong
METL's liquidity is strong, which is primarily driven by financial support from RIL and group companies. The company had no external long-term debt or any fund-based working capital limits outstanding as on June 30, 2022. A large portion of the outstanding interest-bearing unsecured loans was also repaid in FY22 out of the proceeds of zero coupon fully convertible debentures and the balance is expected to be repaid by the end of FY23 through internal accruals of METL. Additionally, the non-fund-based limits availed by METL are backed by the unconditional and irrevocable CG of RIL. With land development costs funded mainly through promoter funds and realisation from customers, the liquidity profile remains strong, aided by promoter group support through a track record of infusion of unsecured loans and zero-coupon optionally convertible debentures.

Key rating weaknesses
Project execution and marketing risks: The MET project of METL has a long gestation period due to the long-drawn process of industrial infrastructure development, which necessarily involves consolidation of land, planning and execution of development works. METL also provides a secondary level of facilities such as the development of plantation and green belts, commercial and institutional sites, common parking facilities, etc. The primary and secondary developmental activities lead to a long gestation period along with slow cash generation. Moreover, the demand for industrial plots is susceptible to changes in the economic climate. Additionally, there is an inherent marketing risk associated with a project of this size. Owing to the substantial size of the asset base and scale of the ongoing project, timely approvals, viz, environmental clearances, license approvals, etc, will play a key role in minimising any major time and cost overruns. The prospects of METL will be governed by its ability to profitably scale up its operations despite a slowdown in industrial and real estate activity. With the completion of major land aggregation and key development works, there was a significant improvement in the project during FY22 on account of the execution of the final sale deeds and the commencement of the booking of residential plots at significantly high rates. In addition, comfort is drawn from the fact that the company has already completed the land acquisition process, has received the clearances for some parts of the land for the developmental work, and is ramping up its scale of operations. However, CARE Ratings Limited (CARE Ratings) derives comfort from the promoter group's track record in planning and executing projects of such massive scale in a timely and cost-efficient manner.

Analytical approach
Standalone. Furthermore, close management and financial linkages with its ultimate parent, RIL, are considered.

Applicable criteria
Criteria for assigning 'outlook' and 'credit watch' to credit ratings
CARE Ratings' policy on Default Recognition
Infrastructure sector ratings
Liquidity analysis of non-financial sector entities
Rating methodology – Notching by factoring linkages in ratings
Financial ratios – Non-financial sector

About the company
METL, incorporated in October 2006, is a wholly-owned subsidiary of RVL (the holding company), which in turn, is a wholly-owned subsidiary of RIL. METL is developing the MET project in the Jhajjar district of Haryana, as approved by the Haryana Investment Promotion Board (HIPB). The MET project is envisaged as a fully-integrated industrial township and will have industrial clusters, including domestic traffic areas (DTA), special economic zones (SEZs) with support infrastructure of the logistic hub, rail, and road connectivity, and social infrastructure including associated residential, commercial, recreational, and institutional development. It will also undertake maintenance and upkeep of the township. Japanese industry majors such as Panasonic, Denso, and others including Amber group and the national distribution centre of Reliance Retail Limited (RRL; rated 'CARE AAA; Stable/CARE A1+') have already commenced their operations from this township.

Brief Financials – Standalone (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (Prov.)
TOI	258.43	337.69	111.29
PBILDT	48.16	44.23	13.69
PAT	50.22	49.42	9.60
Overall gearing (times) *	0.66	0.07	0.05
Interest coverage (times)	20.41	25.87	39.11

A: Audited; Prov.: Provisional; Financials are classified as per CARE Ratings' standards.
*Considering zero coupon optionally fully convertible debentures as quasi-equity.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer to Annexure-2

Covenants of the rated instruments: Not applicable

Complexity level of the various instruments rated for this company: Please refer to Annexure-3

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - LT-Bank guarantee		-	-	-	250.00	CARE AAA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Non-fund-based - LT-Bank guarantee	LT	250.00	CARE AAA; Stable	-	1)CARE AAA; Stable (29-Sep-21)	1)CARE AAA; Stable (24-Sep-20)	1)CARE AAA; Stable (25-Feb-20)

*Long-term/Short-term.

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Non-fund-based - LT-Bank guarantee	Simple

Annexure-4: Bank lender details for this company

To view the lender-wise details of bank facilities, please click here.

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

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Hardik Shah
Phone: +91-79-4026 5620
E-mail: hardik.shah@careedge.in

Relationship contact
Name: Saikat Roy
Phone: +91-22-6754 3404
E-mail: saikat.roy@careedge.in

About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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