Texmaco Infrastructure & Holdings Limited

March 24, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]*	Rating Action
Long-term Bank Facilities	23.63	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Short-term Bank Facilities	12.50	**CARE A1 (A One)**	Revised from CARE A1+ (A One Plus)
Total	**36.13 (Rs. Thirty Six crore and thirteen lakh 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 company's plan to venture into real estate segment viz. develop a large sized residential cum retail real estate development project at Kamla Nagar, New Delhi proposed to be funded through equity and customer advances, nascent stage of the project with pending regulatory approvals, 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 continue to derive strength from it being a part of the Adventz group, stable sources of operating income with high profitability margins in FY20 (refers to the period April 1 to March 31) and 9MFY21 (refers to the period April 1 to December 31), comfortable capital structure & debt coverage indicators, healthy investment profile with holdings in major group companies and satisfactory liquidity position.

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.

Negative factors

- Delay in monetization of land parcels to fund equity infusion leading to availment of project debt by the company.
- Decrease in rental income on account of termination of agreement after lock in period on a continuous basis

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.

Stable sources of operating income with high profitability margins

Texmaco holds various investments in the group and derives income from four segments, i.e. interest & dividend income from its investments (49% of total income in FY20), rental income (36% of total income), hydro power (10% of total income) and job work (6% of total income). Interest income is derived mainly from Inter Corporate Deposits (ICDs) given both to group and outside group entities. In case of ICDs given to outside entities, Texmaco Group has ongoing and past commercial relationship with these parties. The rental income is derived from Texmaco's "Global Business Park" property at Gurgaon and Birla Textiles at New Delhi. As on Dec 31, 2020, the total leased out area of the property is 93,178 sq. ft. These provide a stable source of income for the company. The company evacuated and supplied 7.40 million units (mU) in FY20 as against 8.09 mU in FY19 of power from its 3 MW Mini Hydro Power Project at Neora, District Darjeeling in West Bengal and job work is being done for Texmaco Rail & Engineering Limited on a small scale.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

The total operating income increased by around 15% from Rs.23.52 crore in FY19 to 27.05 crore in FY20 primarily due to increase in revenue from interest income. PBILDT margin improved marginally from 55.71% in FY19 to 56.29% in FY20 on account of increase in total income. PAT Margin remained stable at 27% in FY20.
Further, the company has earned PAT of Rs.5.46 crore on total operating income of Rs.17.80 cr in 9MFY21.

Comfortable capital structure and debt coverage indicators
The capital structure is comfortable with overall gearing ratio of 0.08x as on March 31, 2020 (0.07x as on March 31, 2019). Total Debt/GCA remained comfortable at 2.55x as on March 31, 2020 as against 2.79x as on March 31, 2019. Interest coverage also remained comfortable at 5.63x in FY20 (5.24x in FY19).

Healthy investments profile albeit diminution in value of investments
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 Dec 31, 2020, the company had investments of Rs.111.57 crore in land bank and properties, Rs.101.56 crore in equity instruments, Rs.0.70 crore in Mutual Funds and has provided loans and advances of Rs.71.58 crore to subsidiaries and body corporates. The market value of such quoted equity instruments was Rs.268.34 crore as on March 22, 2021 (as against Rs.208.43 crore as on June 22, 2020 and Rs.471.69 crore as on June 21, 2019) indicating a healthy investment portfolio.

Key Rating Weaknesses

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. 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 usually for 9 to 15 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.

Vulnerability of cash flow from hydro power unit to availability of water
Texmaco owns and operates a 3 MW hydro power plant over the Neora river in Darjeeling, West Bengal. Power generation is dependent on the rainfall and Texmaco witnesses variability in hydro power generation on account of the extent of rainfall received during the year.

Liquidity: Adequate
Adequate liquidity characterized by sufficient cushion in GCA of Rs. 9.87 crore vis-à-vis repayment obligations of Rs. 3.09 crore in FY20 and moderate cash balance of Rs.0.80 Crore as on March 31, 2020. Texmaco has liquidity in the form of liquid

investments of Rs.0.70 crore as on Dec 31, 2020 and low debt servicing obligation. The company has monthly rent collection of around Rs. 0.54 cr against LRD EMI repayment instalment of Rs. 0.41 cr. Although, the company has already repaid Rs.0.50 crore fund based and Rs.12.50 crore non fund based facility however No Dues Certificate for the same has not yet been received from lenders. The company had availed moratorium facility for the period of March-August 2020 for repayment of principal and interest repayment for LRD loan although it has received rentals for April & May 2020. The tenure of the LRD loan has extended by 6 months on account of moratorium (from May'2026 to November'2026).

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, Job work 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)	FY19 (A)	FY20 (A)
Total Operating Income	23.52	27.05
PBILDT	13.11	15.23
PAT	6.98	7.36
Overall gearing (times)	0.07	0.08
Interest coverage (times)	5.24	5.63

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	-	-	-	0.50	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	12.50	CARE A1
Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	-	-	Nov 2026	23.13	CARE A-; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	0.50*	CARE A-; Stable	1)CARE A+; Stable (03-Jul-20)	1)CARE A+; Stable (04-Jul-19)	1)CARE A+; Stable (25-Sep-18)	1)CARE A+; Stable (10-Jul-17)
2.	Non-fund-based - ST-BG/LC	ST	12.50*	CARE A1	1)CARE A1+ (03-Jul-20)	1)CARE A1+ (04-Jul-19)	1)CARE A1+ (25-Sep-18)	1)CARE A1+ (10-Jul-17)
3.	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	23.13	CARE A-; Stable	1)CARE A+; Stable (03-Jul-20)	1)CARE A+; Stable (04-Jul-19)	-	-

**Texmaco has already surrendered Cash Credit and BG facility availed from State Bank of India. The No Dues Certificate is expected to come shortly*

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

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.*

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