November 11, 2022

# Sara Investments: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long-term Fund-based – Term Loan | 10.00 | 10.00 | [ICRA]A- (Stable) reaffirmed |
| Total | **10.00** | **10.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The rating reaffirmation factors in the status of Sara Investments (Sara) as the ultimate holding entity of Munjal Auto Industries Limited (MAIL; rated [ICRA]AA- (Stable)/ [ICRA]A1+) and the steady annual rental inflows from its well-located office space on Golf Course Extension Road, Gurgaon (Haryana), leased to MAIL, the only tenant, on a long-term agreement. Given the strong credit profile of the tenant and common promoters with Sara, the vacancy risk and the counterparty default risk associated with the lease is low. Sara received higher dividend income FY2023 in the current fiscal given the dividend declaration by MAIL. Further, Sara enjoys a comfortable liquidity position and its subsidiary, Thakur Devi Investments Private Limited (TDIPL), also has sizeable liquidity, which are all rating comfort factors.

The rating is, however, constrained by the low scale of operations, high asset concentration risk associated with a single, leased property, and the absence of an escrow account. Moreover Sara, being a partnership firm, faces the risk of capital withdrawal by the partners.

The Stable outlook on the long-term rating reflects ICRA's expectation of adequate operating cash flows and liquid investments of the company along with comfortable credit profile of MAIL, since it is the tenant as well as the key investee company for Sara.

## Key rating drivers and their description

### Credit strengths

**Status as ultimate holding entity of MAIL –** Through its subsidiary, TDIPL, Sara is the ultimate holding entity of MAIL (rated [ICRA]AA- (Stable) / [ICRA] A1+). While Sara directly holds a 44.12% stake in TDIPL, Mr. Sudhir Munjal and family hold the remaining 55.88%. TDIPL in turn holds a 74.81% stake in MAIL. Given the comfortable credit risk profile of MAIL and a track record of consistent dividend payments till FY2019, TDIPL has maintained its strong credit profile even after distributing dividends among its shareholders. However, TDIPL did not provide any dividends in FY2021 and FY2022, against the backdrop of MAIL not declaring dividends for FY2020 and FY2021 due to the Covid-19 pandemic. MAIL declared and paid a dividend of Re. 1 per equity share for FY2022 in September 2022, which induced TDIPL to pass on dividend income of Rs. 2.6 crore to Sara in October 2022, thus adding to its FY2023 revenues.

**Favourable location of property and long-term lease agreement with MAIL –** The favourable location of Sara's property on Golf Course Extension Road in Gurgaon, with good accessibility and proximity to commercial and residential neighbourhoods, provides comfort and offers scope for the lessor to escalate the rental. Moreover, the property being leased out for a 10-year period to a step-down subsidiary, MAIL, with both the lessor and the lessee under the control of the Munjal family, the vacancy and counterparty default risks also stand minimised. In FY2022, the rental income from MAIL increased by 10% as stipulated in the lease agreement.

**Comfortable liquidity profile with sufficient mutual fund investments –** Sara had investments of Rs. 6.6 crore in liquid mutual funds as on October 31, 2022. Sara's subsidiary, TDIPL, had around Rs. 69.0 crore of investments in mutual funds and Rs. 375.0 crore worth of MAIL's equity shares with zero debt on its books as on October 31, 2022. This provides a sufficient buffer to the firm to meet its repayment obligations in case there is a delay in receiving rental income.

## Credit challenges

**No escrow mechanism in place for the LRD facility –** Sara does not have an escrow account and associated debt servicing reserve account (DSRA) for the sanctioned loan facility. While an escrow mechanism would have provided additional comfort with ring-fenced cash flows, a track record of timely EMI payments as well as sufficient liquid investments mitigates concerns to an extent. Moreover, the possible timing mismatch between rental receipt and EMI date is a concern, though mitigated to an extent by the track record of payments and existing back-up liquidity with the company.

**Small scale and high asset concentration risk –** The firm receives rental income from only a single property and is, therefore, exposed to asset concentration risk. Any event leading to a lowering of the income potential from the leased asset would have a significant impact on the firm's revenue prospects. The key investee company, MAIL, did not declare dividends for FY2020 and FY2021 due to significant impact of the pandemic on MAIL's operations. As a result, Sara's DSCR for FY2021 and FY2022 stood at 1.8–2.0 times, though expected to improve in FY2023 with receipt of dividend income from TDIPL.

**Risk of capital withdrawal by partners –** As a partnership firm, Sara faces the risk of capital withdrawal by the partners, which can adversely impact its capital structure. During FY2022, there was Rs. 0.3 crore of net withdrawal by the partners, excluding accrued profits of Rs. 1.87 crore.

## Liquidity position: Adequate

Sara's liquidity is adequate, supported by ~Rs. 6.6 crore worth of investments in mutual funds as on October 31, 2022, as well as Rs. 70 crore market value of liquid investments at TDIPL as on March 31, 2021, and Rs. 165 crore worth of MAIL's equity shares as on October 31, 2022. Being a holding entity, Sara does not have any major operational expenses. Its moderate repayment obligations are expected to be adequately met by the rental income from its leased property.

## Rating sensitivities

**Positive factors –** A significant and consistent increase in revenues of the firm through material diversification into multiple investee companies or investment in multiple, rent-paying commercial real estate properties could result in a rating upgrade.

**Negative factors –** A higher than expected capital withdrawal by partners could lead to a deterioration of credit metrics and, thus, result in a rating downgrade. Moreover, any significant debt-funded capex or investment plans could lead to a negative rating action. In terms of specific metrics, DSCR lower than 1.8 times on a sustained basis without adequate liquid investments could lead to a rating downgrade. Maintenance of shareholding in MAIL through TDIPL would also remain a key monitorable.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Holding Companies |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | Standalone |

## About the company

Incorporated in 2010, Sara is a partnership firm and the ultimate holding company of MAIL through its 44.12% stake in TDIPL, which in turn has a 74.81% stake in MAIL. The remaining stake in TDIPL is directly owned by Mr. Sudhir Munjal. MAIL is a listed entity engaged in the production of mufflers, rims and scooter wheels, and press metal components for the automotive industry. TDIPL, the holding company of MAIL, does not have any other major equity investments and its revenues consist of dividends from MAIL and interest/ profits from mutual fund investments.

The revenue streams for Sara have traditionally included dividend income from TDIPL and interest/ profits from mutual funds. In FY2019, Sara purchased a floor in one of the towers of Unitech Business Zone, Gurgaon, and rented out the same to MAIL on a 10-year lease. This has added another revenue stream for Sara in the form of rental income.

### Key financial indicators (audited)

| Sara Investments | FY2021 | FY2022 |
|---|---|---|
| **Operating income** | 2.9 | 2.5 |
| **PAT** | 2.2 | 1.9 |
| **OPBDIT/OI** | 98.6% | 97.5% |
| **PAT/OI** | 76.2% | 75.6% |
| **Total outside liabilities/Tangible net worth (times)** | 0.5 | 0.4 |
| **Total debt/OPBDIT (times)** | 2.8 | 2.9 |
| **Interest coverage (times)** | 4.4 | 4.5 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore;*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2023) | | | | Chronology of rating history for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of Mar 31, 2022 (Rs. crore) | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 | Date & rating in FY2019 |
| | | | | | Nov 11, 2022 | August 02, 2021 | June 30, 2020 | - | Mar 11, 2019 |
| 1 | Term Loans | Long-term | 10.0 | 7.0 | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | - | [ICRA]A- (Stable) |

*&= Under Watch with Developing Implications*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term Fund-based – Term Loan | Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

## Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Term Loan | 20-Jul-2018 | 7.19% | 01-Apr-2029 | 10.00 | [ICRA]A- (Stable) |

*Source: Company*

## Annexure II: List of entities considered for consolidated analysis – Not applicable

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## About ICRA Limited:

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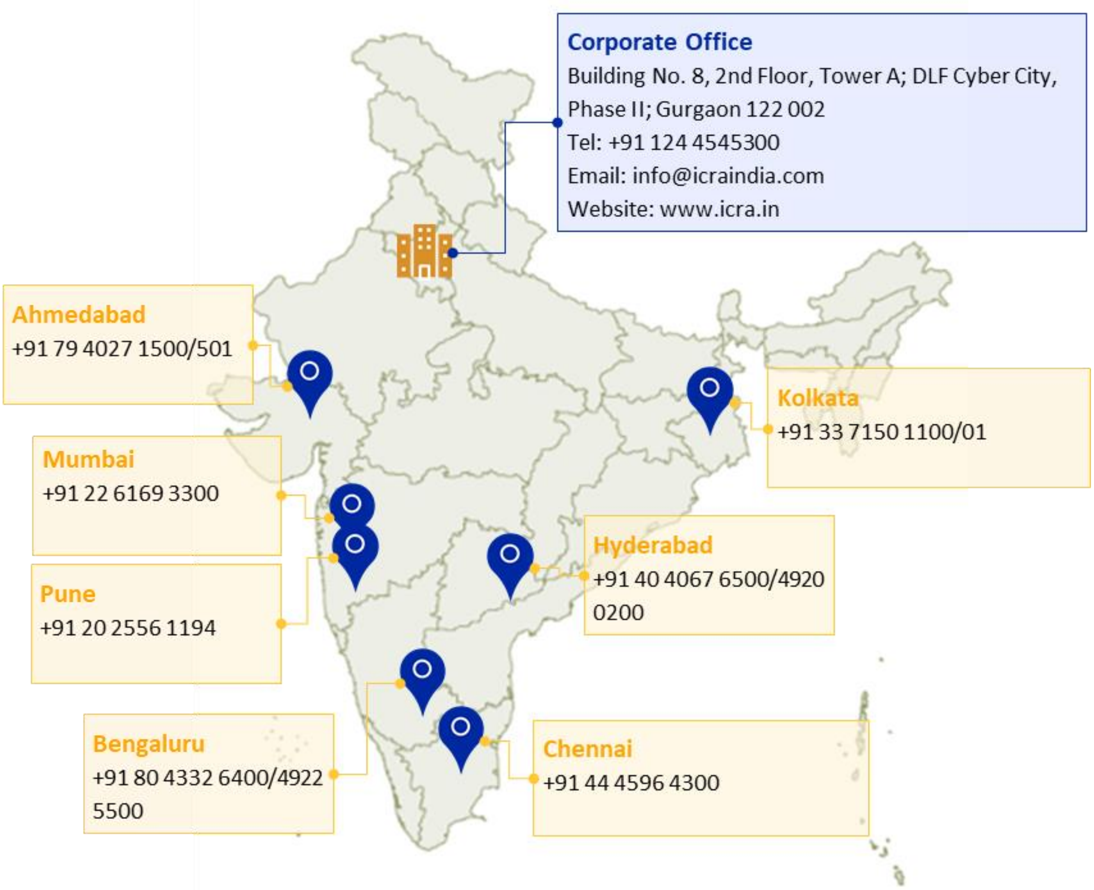




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