

December 06, 2023

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. In addition to the lease income, Sara has been receiving dividend income as per the trend in dividend declaration from MAIL. Further, it enjoys a comfortable liquidity position and its subsidiary, Thakur Devi Investments Private Limited (TDIPL), also has sizeable liquidity, all rating comfort factors.

The rating is, however, constrained by Sara's 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 the 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, TDIPL has maintained its strong credit profile following the dividend distribution among its shareholders. MAIL declared and paid a dividend of Re. 2 per equity share for FY2023 in August 2023, which induced TDIPL to pass on dividend income of Rs. 4.2 crore to Sara in September 2023, thus adding to its FY2024 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 and a further increase is due in FY2025 (May 2024 onwards). Thus, Sara continues to get consistent and timely lease rentals from its lessee, which more than adequately covers the monthly EMIs.

Comfortable liquidity profile with sufficient mutual fund investments – Sara had investments of Rs. 6.7 crore (market value) in liquid mutual funds as on September 30, 2023. Sara's subsidiary, TDIPL, had around Rs. 85.5 crore (market value) of investments in mutual funds as on September 30, 2023, and Rs. 615 crore worth of MAIL's equity shares with zero debt on its

books as of November 2023. This provides a sufficient buffer for Sara 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 equated monthly instalment (EMI) payments as well as sufficient liquid investments mitigate concerns to an extent. Moreover, the possible timing mismatch between the rental receipt and EMI date is a concern, though it is 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. However, ICRA notes that the key investee company, MAIL, has a track record of declaring dividends, except for FY2020 and FY2021 due to significant impact of the pandemic on MAIL’s operations.

Risk of high withdrawal by partners – As a partnership firm, Sara faces the risk of withdrawal by the partners, which can adversely impact its capital structure in case the withdrawal is substantial. Moreover, the partners have been withdrawing money from business only after addressing the debt obligations as there are no other funding requirements in Sara. Any sizeable withdrawal, which affects the debt coverage of Sara, will be a rating concern.

Liquidity position: Adequate

Sara’s liquidity is **adequate**, supported by ~Rs. 6.7 crore worth of investments in mutual funds in Sara and ~Rs. 85.5 crore market value of liquid investments at TDIPL as on September 30, 2023, and Rs. 615 crore worth of MAIL’s equity shares as on November 30, 2023. 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 withdrawal by partners, which impacts the debt coverage metrics, or any significant debt-funded capex or investment plans, could also lead to a negative rating action. In terms of specific metrics, a 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 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 Munjal Auto Ltd 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 which produces mufflers, rims and scooter wheels, and press metal components for the automotive industry. MAIL's 68% subsidiary Indutch Composites Technologies Private Limited manufactures wind turbine blades and blade moulds. 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 provided an additional revenue stream for Sara in the form of rental income.

Key financial indicators (audited)

Sara standalone	FY2022	FY2023
Operating income	2.5	4.6
PAT	1.9	4.0
OPBDIT/OI	97.5%	98.0%
PAT/OI	75.6%	87.2%
Total outside liabilities/Tangible net worth (times)	0.4x	0.4x
Total debt/OPBDIT (times)	2.9x	1.4x
Interest coverage (times)	4.5x	9.1x

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 – Not applicable

Rating history for past three years

Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore)*	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Dec 6, 2023	Nov 11, 2022	August 2, 2021	June 30, 2020	
1 Term Loans	Long-term	10.0	6.1	[ICRA]A-(Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	

Source: Company, *as on March 31, 2023

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	Jul-2018	NA	Apr-2029	10.00	[ICRA]A- (Stable)

Source: Company

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

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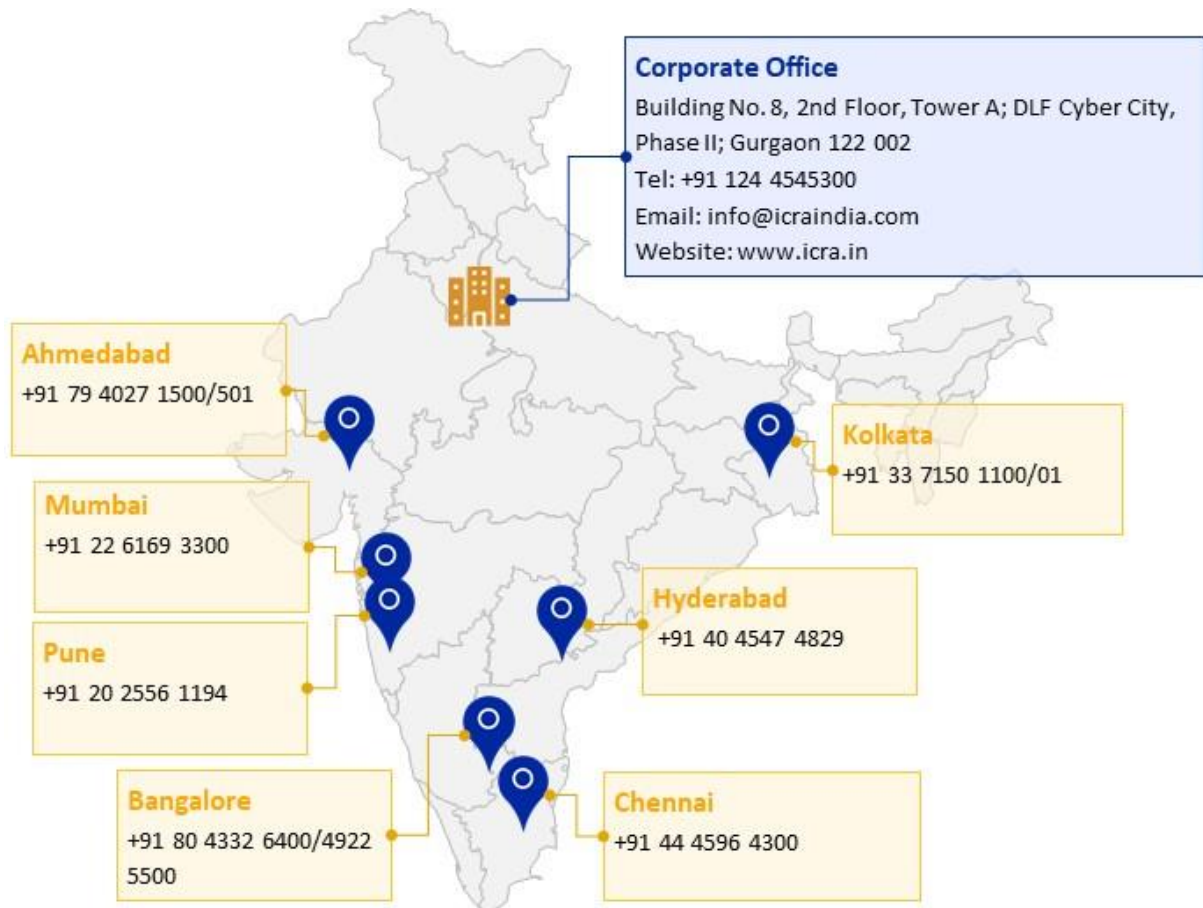
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