

January 29, 2025

Sara Investments: Rating 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 steady annual rental inflow 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 (Covid affected years were exception) from MAIL. Further, it enjoys a comfortable liquidity position and its subsidiary, Thakur Devi Investments Private Limited (TDIPL), also has sizeable liquidity, which provides rating comfort.

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, being a partnership firm, Sara 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 along with the comfortable credit profile of MAIL as 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. 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, except the Covid-affected years, TDIPL has maintained its strong credit profile following dividend distribution among its shareholders. MAIL declared and paid a dividend of Rs. 2 per equity share in September 2024, which led TDIPL to pass on dividend income of Rs. 5.95 crore to Sara in October 2024, adding to its FY2025 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 is 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. Thus, the vacancy and counterparty default risks are also minimal. In May 2024, the rental income from MAIL increased by 10% as stipulated in the lease agreement and a further increase is due in FY2028 (May 2027 onwards). Thus, Sara continues to get consistent and timely lease rentals from its lessee, which more than adequately covers the monthly equated monthly instalment (EMI) payments.

Comfortable liquidity profile with sufficient investments in mutual funds – Sara had investments of Rs. 8.4 crore (market value) in mutual funds as on September 30, 2024. Sara’s subsidiary, TDIPL, had around Rs. 94.8 crore (market value) of investments in mutual funds as on September 30, 2024, and Rs. 690 crore worth of MAIL’s equity shares with zero debt on its books as on January 17, 2025. 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 lease rental discounting (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 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.

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 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 if 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. 8.4 crore (market value) investments in equity mutual funds as of September 30, 2024, and Rs. 304 crore (market value) of MAIL’s equity shares as on January 17, 2025. 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 the 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 – Higher withdrawal by partners, impacting the debt coverage metrics, or 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 Investment Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

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, fuel tank, 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 comprise 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 had 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 added another revenue stream for Sara in the form of fixed rental income, which is more than the EMI payable for the LRD taken to buy the above property.

Key financial indicators (audited)

Sara Investments	FY2023	FY2024
Operating income	4.6	7.3
PAT	4.0	3.6
OPBDIT/OI	98.0%	99.1%
PAT/OI	87.2%	49.1%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	1.4	0.7
Interest coverage (times)	9.1	14.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current year (FY2025)		Chronology of rating history for the past 3 years							
			FY2025		FY2024		FY2023		FY2022			
			Date	Rating	Date	Rating	Date	Rating	Date	Rating		
Term Loans	Long term	10.00	29-Jan-2025	[ICRA]A-(Stable)	-	-	06-Dec-2023	[ICRA]A-(Stable)	11-Nov-2022	[ICRA]A-(Stable)	02-Aug-2021	[ICRA]A-(Stable)

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	June 2018	~8.75	April 2029	10.00	[ICRA]A- (Stable)

Source: Company

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

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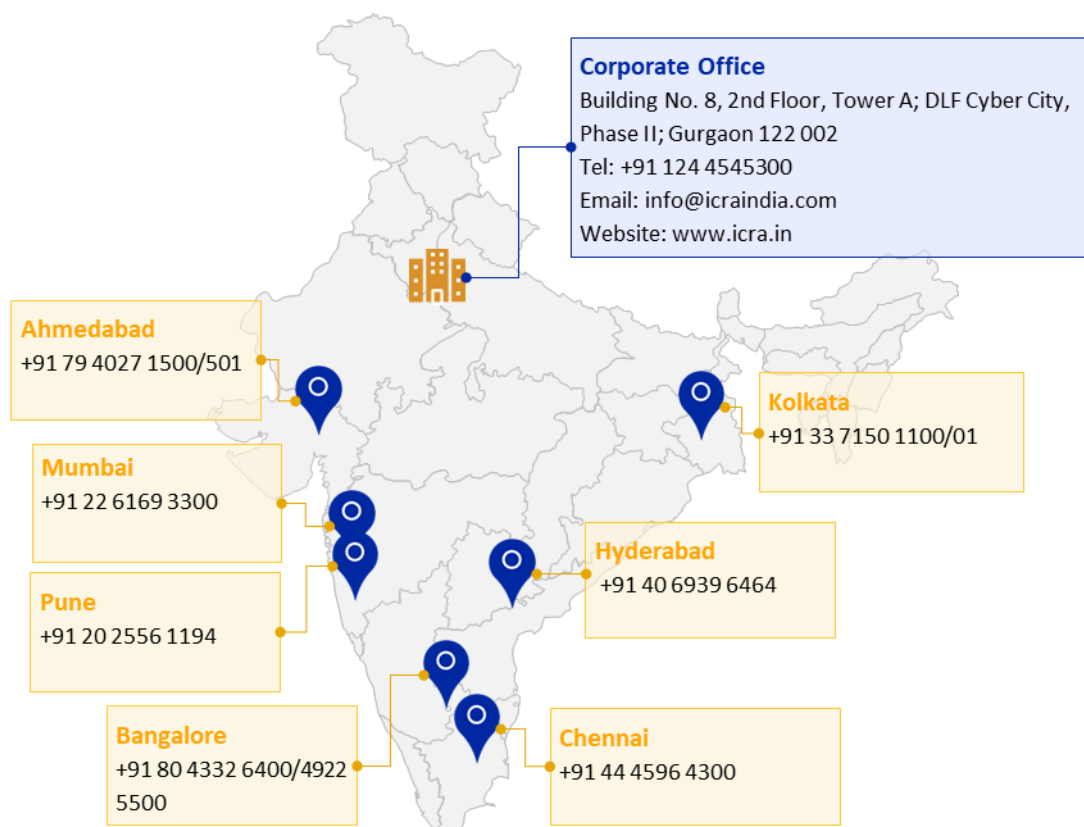
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