

Press Release

Syntex Trading & Agency Pvt. Ltd. (STAPL)

August 28, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Long Term – Fund Based (Term Loan)*	463.29	IVR A (SO)/Stable Outlook (IVR A [Structured Obligation] with Stable Outlook) #
	Total	463.29	

* Including proposed term loan of Rs. 175 cr.

SO rating fully backed by the Master Lease Agreement (MLA) with Future Retail Ltd. and Future Lifestyle Fashions Ltd.

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from the Master Lease Agreement between the company and its clients, the escrow mechanism for lease rentals and good financial profile of the client companies. The rating however is constrained by client concentration risk and the moderate capital structure. Continuity of master lease agreement between the company and clients, escrow mechanism and financial health of the lessees are the key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Escrow of lease rentals (Unconditional performance)

There is a Tripartite Agreement between STAPL, its clients Future Retail Limited (FRL) & Future Lifestyle Fashions Limited (FLFL) and the lending banks for escrowing the lease rental income coming from both the client companies. All the monthly interest servicing and repayment of all the instalments is made from the said escrow account. It also has a personal guarantee from Mr. Kishore Biyani & Mr. Vijay Biyani.

Master Lease Agreement with the clients

There exist a Master Lease Agreement (MLA) between STAPL and its clients FRL & FLFL. The agreement clause states that the client's payment obligations are absolute and unconditional irrespective of the operation / non-operation of the equipment and that they shall continue to pay the rent in accordance with the lease rental schedule throughout the agreed term irrespective of whether the retail outlet is operating or not. This MLA cannot be terminated by either parties without the consent of lenders. The MLA also protects STAPL from any upward revision in interest rates with respect to the term loan by making the customer companies to reimburse the same.

Good financial profiles of the clients

To add, the client companies are renowned names in retail sector which are part of the Future group. The financial profiles of both the companies are good with comfortable debt servicing parameters

Key Rating Weaknesses

Customer Concentration Risk

The customer concentration risk is high for the company as it currently caters only to FRL & FLFL. Its shows a very high dependence of company earnings on only two entities.

Moderate Capital Structure and Volatile Operating Income

Although the escrow mechanism and Master lease agreement protects the company from any stress related to the debt repayment obligations, the company has a moderate capital structure with long term debt to equity ratio of 1.7x in FY19. The TOL/TNW ratio also stood at a moderate value of 2.75x for the same period. The operating income is fluctuating owing to the volatility in income from the fabric trading arm of the company.

Liquidity

The company has an adequate liquidity position so far. The surplus generated from the lease rentals after the debt obligations have been paid are sufficient for generating adequate liquidity position for the company.

About the company

Syntex Trading & Agency Pvt. Ltd. (STAPL) is engaged in business of acquiring and dealing in residuary interest in all types of properties, moveable assets and equipments. It is into renting or letting on hire equipments, appliances and related products to various customers and providing customized rental solutions.

Financials (Standalone)

(Rs. Crore)

For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (P)
Total Operating Income	784.68	196.12
EBITDA	142.16	114.94
PAT	-10.15	1.06
Total Debt	472.23	401.4
Tangible Net worth	234.78	235.84
EBIDTA Margin (%)	18.12	58.61
PAT Margin (%)	-1.29	0.53
Overall Gearing ratio (x)	2.01	1.7

* Classification as per Infomerics' standards

Any other information: N.A

Rating History for last three years:

Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (Rs. crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Fund Based Facilities	Long Term Loan	463.29	IVR A (SO) /Stable Outlook	--	--	--
	Total	463.29				

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Sr. no	Name of Facility	Date of Issuance	Coupon Rate / IRR (At present)	Maturity Date	Size of Facility (Rs. crores)	Rating Assigned/ Outlook
1	Long Term Loan	24/03/2015	11.65%	7 years	73.73	IVR A (SO) / Stable Outlook
2	Long Term Loan	05/12/2016	11.65%	7 years	147.66	
3	Long Term Loan	16/09/2014	11.25%	7 years	66.90	
4	Long Term Loan (Proposed)	--	--	--	175.00	
Total					463.29	