

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Khyati Realtors Private Ltd.

October 30, 2017

Rating

Instrument / Facility	Amount	Rating	Rating Action
Commercial Paper*	Rs.500.00 crores	IVR A1+ (SO) (IVR A One Plus [Structured Obligation])	Assigned

**Based on guarantees from Lakshdeep Investments and Finance Private Limited (LIFPL) and pledge of shares of Sun Pharmaceutical Industries Ltd (Sun Pharma) held by LIFPL and / or Mr. Sudhir Valia, Mrs. Raksha Valia, Mrs. Shraddha Panchamia and / or Mrs. Khyati Valia*

Details of Facility are in Annexure 1

Detailed Rationale

The ratings derive comfort from the credit enhancement provided in the form of guarantee backed by pledge of shares in Sun Pharmaceutical Industries Ltd (Sun Pharma) with 1.75X cover, defined transaction structure & payment mechanism, good credit quality of Sun Pharma and resourceful promoter. The rating also takes into consideration the inherent volatility in the stock market and the falling trend in the pharma sector stock prices. The performance of the shares of Sun Pharma is the key rating sensitivity.

List of Key Rating Drivers

- Credit Enhancement in the form of Guarantee backed by pledge of shares held in Sun Pharma
- Defined transaction structure and payment mechanism
- Good Credit Quality of Sun Pharmaceutical Industries Ltd
- Resourceful Promoter
- Volatility in the stock market

Detailed Description of Key Rating Drivers

Credit Enhancement in the form of Guarantee backed by pledge of shares

The proposed CPs of KRPL shall be backed by unconditional & irrevocable guarantee given by the Lakshdeep Investments and Finance Pvt Ltd (LIFPL), backed by a pledge of shares of

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Sun Pharma held by LIFPL. In addition the CPs shall also be secured by shares held by Mr.Sudhir Valia, Mrs. Raksha Valia, Mrs. Shraddha Panchamia and Mrs. Khyati Valia in Sun Pharma. The shares to be pledged shall provide a minimum cover of 1.75 times the CP issuances of SRL.

Defined transaction structure and payment mechanism

The issuer (i.e., KRPL) will deposit the money to be paid to the CP investors in a designated account with an Issuing and Paying Agent (a commercial bank with A1+ rating) three business days before the repayment date of the CPs. In case this does not happen, the Trustee to the issue, in consultation with the investor, will decide the course of action, including execution of guarantee and sale of pledged equity shares of Sun Pharma, as aforesaid.

The proposed hard pledge of shares shall provide a minimum cover of 1.75X the issue size of the CP. In the event of a fall in the share price of Sun Pharma, leading to the cover falling below 1.60X, the shares would be topped up to the minimum required level of cover (i.e. 1.75X), failing which the CPs shall be repaid. The top up would be done by pledging additional shares of Sun Pharma held by LIFPL and / or Mr. Sudhir Valia, Mrs. Raksha Valia, Mrs. Shraddha Panchamia and / or Mrs. Khyati Valia. The time period allowed for the top up or repayment is proposed to be three trading days from the trigger breach; the trigger breach in this case being the cover falling below the level of 1.60X. To give effect to the aforesaid transaction, a Trustee Agreement, Deed of Guarantee and a Share Pledge Agreement shall be entered into between/amongst the concerned parties.

Good Credit Quality of Sun Pharmaceutical Industries Ltd

Promoted by Mr. Dilip Shanghvi, Sun Pharmaceutical Industries Ltd (Sun Pharma) was originally formed as a partnership firm, which was later converted into a public limited company in 1993. Sun Pharma's global presence is supported by 42 manufacturing facilities spread across six continents and R&D centres across the globe. Its footprint covers over 100 markets (including 6 markets in Western Europe). Sun Pharma is supported by strong R&D capabilities comprising about 2,000 scientists and R&D investments of approximately 8% of annual revenue.

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Sun Pharma reported a gross revenue of Rs.31578 crs and PAT of Rs.7836 crs for FY17 against Gross Revenue of Rs.28487 crs and PAT of Rs.5657 crs in FY16. It had a Net Worth of Rs.30014 crs as on March 31, 2017 (as on March 31, 2016 – Rs.27807 crs). The market capitalization of Sun Pharma stood at around Rs.129442 crs as on October 18, 2017.

Resourceful Promoter

LIFPL and its wholly owned subsidiary and KRPL are promoted by Sudhir Valia group spearheaded by Mr. Sudhir Valia. Mr.Valia is a qualified Chartered Accountant and currently serves as a Wholtime Director of Sun Pharma. He also served as the Chief Financial Officer of Sun Pharma Advanced Research Company Limited during July 2014 to January 2017 and has remains a Non-executive Director since then. He was selected by CNBC as the “CFO of the Year” in 2006, 2009 & 2012, in the Pharma Sector.

Volatility in the stock market

Indian capital market, by its nature, is volatile arising out of many developments taking place in the social and economic front both at the national and international levels. Despite a particular equity scrip continuing to remain fundamentally strong, the market price of such scrip may get adversely impacted due to the market behaviour. As the collateral cover for debt servicing, in the instant case, is in the form of equity investment in a listed company, the same is exposed to the risk of market volatility. Further, the share prices of pharmaceutical companies are witnessing a declining trend in the last few months.

Analytical Approach: Infomerics has taken in to account the various structural features in the transaction

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation

About the Company

Infomerics Valuation And Rating Pvt. Ltd.

KRPL was incorporated in December 2003. It is a wholly owned subsidiary of LIFPL. KRPL is mainly engaged in the business of investing in real estate projects on a very small scale. The company is headquartered in Mumbai.

Financials (Standalone)

(Rs. Crores)

For the year ended / Rs. Crs	31-03-2016	31-03-2017
	Audited	Provisional
Total Operating Income	3.33	2.84
EBITDA	2.96	2.53
Interest	0.01	0.00
PAT	4.35	3.01
Total Debt	562.78	574.81
Long Term Debt	71.00	84.00
Tangible Net Worth	93.95	96.96
<u>Ratios</u>		
<u>Profitability Ratios (%)</u>		
a. EBIDTA Margin	88.83	89.06
b. PAT Margin	75.08	65.66
<u>Solvency Ratios</u>		
<u>Long Term</u>		
a. Long Term Debt Equity ratio	0.80	0.90
b. Overall Gearing ratio	6.33	6.18

About the Guarantor Company

LIFPL, is a Non Deposit Taking NBFC, which primarily operates as an investment company. It is a part of the Sudhir Valia group. The company is headquartered in Mumbai.

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Financials (Standalone)

(Rs. Crores)

For the year ended / Rs. Crs	31-03-2016	31-03-2017
	Audited	Provisional
Total Operating Income	8.85	16.26
PAT	13.23	13.72
Tangible Net Worth	347.16	369.21

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years: Not applicable

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.

Name and Contact Details of the Rating Analyst:

Name: Shri Sriram Rajagopalan

Tel: (022) 40036966

Email: srajagopalan@infomerics.com

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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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 Facility

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility(Rs. Crores)	Rating Assigned/ Outlook
Commercial Paper	-	-	-	500.00	IVR A1+ (SO) (IVR A One Plus [Structured Obligation])