

**CARE/HO/RR/2020-21/1451**

**Shri Sudhir Jain**  
**Chief Financial Officer**  
**Model Economic Township Limited**  
77-B, 3rd Floor, IFFCO Road,  
Sector 18, Gurgaon  
Jhajjar, Haryana-122015

October 05, 2020

Dear Sir,

**Credit Rating for Bank Facilities of Rs.250 crore**

Please refer to our letter dated September 17, 2020 on the above subject.

2. The rationale for the rating is attached as an **Annexure-I**.
3. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by October 08, 2020, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,



**[Sharmila Jain]**  
Associate Director  
[sharmila.jain@careratings.com](mailto:sharmila.jain@careratings.com)

Encl.: As above

## Rating Rationale Model Economic Township Limited

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Bank Guarantee- Non -fund based- Long term	250.00 (reduced from 350.00)	<b>CARE AAA; Stable (Triple A; Outlook: Stable)</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>250.00 (Rs. Two hundred Fifty crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rated amount has been reduced at the request of the Model Economic Township Limited (METL). The rating assigned to the bank facility of METL derives comfort from the backing of an experienced, strong and resourceful promoter group- Reliance Group (led by Mr. Mukesh D. Ambani). The rating also takes into account the continual financial support from the promoter group in terms of unconditional and irrevocable corporate guarantee provided by Reliance Industries Limited (RIL; rated CARE AAA; Stable/ CARE A1+) for the non-fund based limits availed by METL and infusion of unsecured loans by the fellow subsidiary to fund the land development activities. The rating further derives strength from the considerable fixed asset held by METL in the form of land parcels which are expected to be monetized over the long tenure. METL has already received environmental clearances for 24% of the land inventory available with the company as on August 31, 2020. CARE expects that the strategic location of the project would aid in the consolidation, development and monetization of the land parcels as is reflected from approx. 800 acres of land developed and sold since 2014 and additional 10% of the balance inventory as on August 31, 2020 under development at various stages.

The above rating strengths, are however, offset by the project execution risk with marketing project of such huge scale remaining a challenge. Further, the rating remains susceptible to the cyclicity and seasonality associated with real estate and infrastructure industry. Nevertheless, comfort is driven from the promoter group's track record in planning and executing projects of such massive scale in timely and cost efficient manner.

CARE notes the moderation in sales deed execution and slowdown in collections in the period March 2020- August 2020 on account of cancellation of four-five bookings, deferment of instalment payments in few cases due to the stressed cash flows of customers on account of COVID-19. However, signing of new deals in Q1FY21, revenue expectation from the spilled over deals of FY20 and management efforts of expediting the pending receivables and lesser cash outflows on developmental works provides some revenue visibility for METL in FY21.

### Rating Sensitivities:

**Positive Factors:** not applicable

### **Negative Factors:**

- Deterioration in the credit profile of RIL
- Discontinuation of financial and need based support from the promoter group

### Detailed description of the key rating drivers

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

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### ***Strong and resourceful promoter group***

METL is a part of Reliance (led by Mr. Mukesh D Ambani) group. The holding company of METL i.e. Reliance Ventures Limited (*RVL*) is a wholly owned subsidiary of RIL, the flagship company of the Reliance group. RIL is one of India's largest private sector companies, with diverse interests, including petrochemicals, oil refining, and upstream oil and gas exploration and production, Retail and Telecom. RIL has strong competitiveness in the global oil refining and petrochemicals business, arising from its integrated business model. Moreover, it is among the top 10 global petrochemical manufacturers and the leading player in India. The presence of such strong and resourceful ultimate parent with vast experience and past track record renders strong backing and leverage in terms of completion of large scale projects undertaken. Any significant change in the ownership of METL from the present holding would remain a key rating sensitivity.

### ***Continued financial support from promoter group***

As on June 30, 2020, the leverage profile of the company includes interest bearing unsecured loan of Rs.2653 crore from fellow subsidiary viz. Reliance 4IR Realty Development Limited (*R4RDL*). The said loan has been extended to fund the developmental work as well as for acquisition of land parcels. The company has also issued zero coupon optionally fully convertible unsecured debentures in 2016 to Reliance Services and Holdings Limited (*formerly known as Reliance World Trade Private Limited*), an entity controlled by Petroleum Trust which has been named as promoter level entity of RIL. The total tenure of the debentures is for a period of 15 years ending March 2032 and the proceeds were used to fund the land acquisition.

The company utilises bank guarantee (BG) facility for submission to various government departments of Haryana government (*Irrigation department, Director General of town and planning, Electricity department etc.*) for obtaining permissions and other approvals to complete land development and related infrastructure. The BG is backed by the unconditional and irrevocable corporate guarantee (CG) of RIL. Apart from this, the company does not have any external debt.

### ***Strategic location of the Project***

MET project is within the influence area of Delhi Mumbai Industrial Corridor (DMIC) Project and the government of Haryana has recommended it as a node of DMIC. The project is also connected to the western Dedicated Freight Corridor (DFC). Due to its strategic location, the company is well-positioned with respect to connectivity and trade and is expected to attract various companies from several industries such as footwear, warehouses, logistics etc.

### ***Significant asset held for monetization***

Out of approx. 7900 acres of owned land, METL has currently received environmental clearances for approx. 1860 acres. As on August 30, 2020, the company is carrying out the developmental work on 804 acres of land. METL monetises the land parcels through selling undeveloped land parcels or developing the industrial colonies and selling the developed plots in licensed colonies as per the contract terms.

During FY20 and Q1FY21, METL sold around 25 acres and 8 acres of developed land parcels respectively. Apart from it, METL has signed some new deals in Q1FY21 with revenue realisation from the deal expected by Q3FY21. The sale details tabulated below pertains only to the developed land parcels during FY20 and Q1FY21.

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Particulars	As on/during the year ended March 31, 2020	As on/during the quarter ended June 30, 2020
Total Project Area under full scale development (acres)	845.24	803.85
Total area sold (acres)	24.84	7.78
No. of plots sold	36	4
Total revenue (in Rs.crore)	66.71	21.90
No. of customers	35	4
Total estimated project cost (in Rs.crore)#	1109.47	1087.08
Total cost incurred till March 31, 2020 (in Rs.crore)#	833.25	829.41

#excludes the land acquisition cost and includes only the land development cost and other related statutory expenses

### **Project execution and marketing risks**

METL's undertaken Model Economic Township (MET) project, which has long gestation period due to long drawn process of industrial infrastructure development which necessarily involves consolidation of land, planning & execution of development works. METL also provides secondary level of facilities such as development of plantation/green belts, commercial and institutional sites, common parking facilities, etc. The primary and secondary developmental activities lead to long gestation period along with slow cash generation. Moreover, the demand for industrial plots is susceptible to changes in the economic climate. A fall in the level of economic activity can dissuade the corporations or the existing allottee may review and reconsider its plans to carry on with the establishment of the intended business, thereby impacting the sales of the industrial townships developed by it, thereby affecting its revenue generation capabilities and profitability. This inherent cyclicity in the industry could pose problems for the company and hamper its growth prospects in future. Additionally, there is an inherent marketing risk associated with a project of this size. Owing to the substantial size of asset base and scale of ongoing project, timely approvals viz. environmental clearances, license approvals etc. would play a key role in order to reduce the time and cost overruns. The prospects of METL would be governed by its ability to profitably scale up its operations despite slowdown in industrial and real estate activity. During the prevailing COVID-19 pandemic conditions, the company has been able to continue its infrastructure development works and get fresh bookings of developed plots. Additionally, during the period March 2020-August 2020, the company has been able to manage its operational cash-flows through its internal accruals. In addition, comfort is driven from the fact that the company has already completed the land acquisition process and has received the clearances for some part of the land for the developmental work. Moreover, CARE derives comfort from promoter group's track record in planning and executing projects of such massive scale in timely and cost efficient manner.

**Liquidity: Strong** – Liquidity is strong primarily driven by financial support from RIL and group companies. As on June 30, 2020, the company has cash and liquid investments of Rs.10.24 crore and does not have any external long term debt nor any fund based working capital limits. The outstanding interest bearing unsecured loans as on June 30, 2020 are from the promoter group entity and are repayable on March 31, 2025. Additionally, the non-fund based limits availed by METL are backed by unconditional and irrevocable corporate guarantee of RIL. With land development cost funded mainly through unsecured loans from promoters and realization from customers, the liquidity profile remains robust aided by the promoter group support through track record of infusion of unsecured loans.

**Analytical approach:** Standalone. Further, close management and financial linkages with RIL are considered

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**Applicable criteria:**Criteria on rating outlook and credit watchCARE's Policy on Default RecognitionFinancial ratios – Non-Financial SectorRating Methodology – consolidation and factoring Linkages in RatingsLiquidity analysis of Non-financial sector entities**About the Company**

Model Economic Township Limited (METL), incorporated in October 2006, is a wholly owned subsidiary of Reliance Ventures Limited (RVL; the holding company) which in turn is a wholly owned subsidiary of Reliance Industries Limited (RIL; rated CARE AAA; Stable/ CARE A1+). METL is developing Model Economic Township (MET) project in district Jhajjar (Haryana) as approved by Haryana Investment Promotion Board (HIPB). MET project is envisaged as a fully integrated industrial township and will have industrial clusters including Domestic Traffic Areas (DTA), Special Economic Zones (SEZ) with support infrastructure of logistic hub, rail and road connectivity and social infrastructure including associated residential, commercial, recreational and institutional development. It will also undertake maintenance and upkeep of the township. Japanese majors such as Panasonic, Denso and others including Amber group and National distribution center of Reliance Retail Limited (RRL, rated CARE AAA; Stable/ CARE A1+) have already commenced their operations in this township.

**Financial Performance of Model Economic Township Limited:**

	(Rs. crore)		
<i>For the period ended / as at March 31,</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
	<i>(12m, A)</i>	<i>(12m, A)</i>	<i>(12m, A)</i>
<b><u>Working Results</u></b>			
Net Sales	173.43	215.56	75.39
Total Operating income	175.65	224.32	77.30
PBILDT	191.49	186.33	198.60
Interest	190.84	196.77	215.22
Depreciation	0.36	0.31	0.48
PBT	-8.60	-8.26	-9.78
PAT (after deferred tax)	-7.26	-10.79	-9.59
Gross Cash Accruals	-8.08	-7.95	-9.30
<b><u>Financial Position</u></b>			
Equity Capital	97.00	97.00	97.00
Networth	4231.65	4219.64	4210.01
- Quasi equity	4125.92	4125.92	4125.92
Total capital employed	6619.30	6652.72	6852.13
<b><u>Key Ratios</u></b>			
<i>Growth</i>			
Growth in Total income (%)	319.96	27.71	-65.54
Growth in PAT (after deferred tax) (%)	NM	NM	NM
<i>Profitability</i>			
PBILDT/Total Op. income (%)	109.02	83.06	256.92
PAT (after deferred tax)/ Total income (%)	-ve	-ve	-ve

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<i>For the period ended / as at March 31,</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
	<i>(12m, A)</i>	<i>(12m, A)</i>	<i>(12m, A)</i>
ROCE (%)	2.98	2.86	2.94
<i>Solvency</i>			
Debt Equity ratio (times)	0.56	0.57	0.63
Overall gearing ratio(times)	0.56	0.57	0.63
Interest coverage(times)	NM	NM	NM
Term debt/Gross cash accruals (years)	NM	NM	NM
Total debt/Gross cash accruals (years)	NM	NM	NM
<i>Liquidity</i>			
Current ratio (times)	62.28	32.75	22.61
Quick ratio (times)	0.46	0.31	0.15
<i>Turnover</i>			
Average collection period (days)	0	0	1
Average inventory (days)	NM	NM	NM
Average creditors (days)	-80	54	-34
Operating cycle (days)	NM	NM	NM

*A: Audited*

*NM: not meaningful*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable.

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-4

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Name – Ms. Sharmila Jain

Contact no.- 022-6754 3638

Email ID- [sharmila.jain@careratings.com](mailto:sharmila.jain@careratings.com)

### Relationship Contact

Name: Mr. Saikat Roy

Contact no.- 022-6754 3404

Email ID: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides

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the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-Bank Guarantees	-	-	-	250.00	CARE AAA; Stable

### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - LT-Bank Guarantees	LT	250.00	CARE AAA; Stable	-	1)CARE AAA; Stable (25-Feb-20)	1)CARE AAA; Stable (27-Dec-18)	1)CARE AAA; Stable (22-Sep-17)

### Annexure-3: Details of Rated Facilities

#### 1. Long Term Facilities

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## 1.A. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Nature of facility	Rated Amount (Rs. crore)	Debt Repayment Terms
1.	Yes Bank Ltd.	BG	150.00	on demand
2.	State Bank of India		100.00	
	<b>Total</b>		<b>250.00</b>	

BG: Bank Guarantee

**Total Long Term Facilities: Rs.250.00 crore**

**Total Facilities (1.A): Rs.250.00 crore**

### Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Non-fund-based - LT-Bank Guarantees	Simple

**Annexure-5: Detailed explanation of covenants of rated instrument: not applicable**

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