

Press Release

Z-Square Shopping Mall Private Limited

28 June, 2017



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.26.60 Cr
Long Term Rating	SMERA BBB/Outlook: Stable

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BBB**' (read as **SMERA BBB**) on the Rs. 26.60 crore bank facilities of Z- Square Shopping Mall Private Limited (Z-Square). The outlook is '**Stable**'.

Z-Square was incorporated in June 2004 by Zazsons Exports Private Limited to construct a shopping mall (Ground+3) at Kanpur, Uttar Pradesh on a total leasable area of 3,70,000 sq feet. The total cost stood at Rs.150 crore to be funded by debt of Rs. 65 crore and the balance from promoters. The operations were led by Mr Husain and family. The construction work commenced in July 2006 and was completed in March 2010.

Key rating drivers

Strengths

- **Experienced management**

The Director, Mr Tahir Husain has experience of over a decade in the real estate industry.

- **Stable revenue visibility**

The company has healthy revenue visibility since the lease agreement is valid for nine years. Majority of the agreements were signed in FY2011-FY2013 and are valid till FY2020-FY2022.

- **Constructive bank arrangements**

The salient features of the loan are as follows I) Escrow Arrangement: - Rentals from discounted leases deposited in the escrow account first. II) Waterfall Mechanism:- The rentals are first used to service the interest and principal obligations. III) Presence of DSRA:- As per the bank's sanction letter, the company has to maintain DSRA account. The company receives the rent in advance on 7-12th of every month. The installments of all term loans are debited from escrow account on the last day of the following month. SMERA finds comfort that the company has cushion of 10-15 days as the rent is received in advance. Further to this, the company cannot debit any funds from the escrow account before servicing the debt. Therefore, the constructive banking arrangements will enhance the credit profile of the company.

Weaknesses

- **Renewal Risk**

The ability of Z- Square to renew the timely lease rental agreements as per the envisaged terms coupled with the credit profile of Licensee will constitute key rating sensitivity.

Analytical approach:

For arriving at the rating, SMERA has considered the standalone business and financial risk profiles of the entity.

Outlook: Stable

SMERA believes that Z-Square will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of substantial increase in cash accruals. Conversely, the outlook may be revised to 'Negative' in case of failure in renewing the lease rental agreements or if the company undertakes large debt fund capex leading to weakening of its liquidity profile.

Applicable Criteria

- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

About the Rated Entity – Key Financials

The company reported profit after tax (PAT) of Rs. 10.92 crore on net sales of Rs. 50.42 crore in FY2016 as against PAT of Rs.7.22 crore on net sales of Rs.46.70 crore in FY2015. The net worth stood at Rs. 87.40 crore as on 31 March, 2016 compared to Rs. 76.46 crore in the previous year.

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
7 Jan, 2016	Term Loan	Long Term	INR 26.60	SMERA BBB / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	2024	26.60	SMERA BBB/Stable (Reaffirmed)

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ABOUT SMERA

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