

Press Release

Subramanya Construction and Development Company Limited (SCDCL)

April 24, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 500.00 Cr.
Long Term Rating	SMERA BBB- (SO)/Stable

**Refer annexure for details*

SMERA has assigned a long term rating of '**SMERA BBB- (SO)**' (**read as SMERA triple B minus (Structured Obligation)**) on the Rs.500.00 crore bank facilities of Subramanya Construction and Development Company Limited (SCDCL). The outlook is '**Stable**'.

The term loan will be serviced from the regular flow of lease rental from a property 'Subramanya Arcade'. Since the bankers have stipulated an escrow mechanism to ensure timely service and presence of DSRA of Rs.4.10 crore, a (SO) rating has been assigned. This rating does not indicate the standalone rating of the company.

Bengaluru based Subramanya Construction and Development Company Limited (SCDCL) was incorporated in 1992. The company is engaged in construction and leasing of commercial property. SCDCL has an IT park branded as 'Subramanya Arcade' in Bengaluru with total leasable area of 8.64 lakh square feet. Other than lease rental business, the company is also engaged in land plotting activities in Bengaluru and Mysore regions.

Key rating drivers

Strengths

Established track record of operations and experienced management

SCDCL is engaged in lease rental discounting since 1992. The company is promoted by Mr. K. N. Balasubramanyam, Mrs. Anita Balasubramanyam and family, who have experience of over two decades in civil construction, land acquisition/ aggregation, land development and execution of infrastructure projects.

Strategic location resulting in stable revenue flows

SCDCL is engaged in lease rental business and provides integrated township model for major Information Technology (IT) companies in Bengaluru. 'Subramanya Arcade' is located at Subramanyapura, Bengaluru which is a prime location in Bengaluru, resulting in long standing relationships with customers and its reason for 100% occupancy rate.

The lease and license agreement, apart from the rentals and charges for amenities, has factored in escalation clause of five per cent every year. SCDCL reported rent and amenities receipts of Rs. 46.53 crore in FY2017 as against Rs.42.72 crore in FY2016.

Maintenance of Debt-service reserve account (DSRA)

SCDCL has an agreement with the bank to maintain an escrow account. All lease rental receivables are to be deposited in the escrow account and utilized firstly for debt servicing before release of surplus cash flows. Further, the company has maintained Debt Servicing Reserve Account (DSRA) of Rs. 4.10 crore for the loan, thus providing a cushion to absorb short term mismatches.

Weaknesses:

Renewal risk and customer concentration risk

Occurrence of events such as policy decision by key clients to shift their offices to other state or decisions regarding outsourcing can impact their willing to continue their lease agreement. Further, this risk is mitigated at an extended considering its strategic location.

In the event of non-renewal by existing lessee the future cash flows will be impacted thereby translating to weakening of debt protection indicators. Key clients contribute to more than 60% of the total lease rentals. In the event of either of the companies deciding to move out or seeking a renegotiation the rentals are likely to be impacted. Timely renewal/leasing at similar or better terms than the existing agreements will remain a key rating sensitivity factor.

Significant refinancing requirement

The total debt of Rs. 1050.22 crore as on March 31, 2017 completely comprises of term loan of. Further, improvement in the demand scenario resulting into healthy cash flows from the projects and timely repayment of interest and principal of DHFL loan will remain key rating sensitivity.

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Analytical Approach

SMERA has considered the standalone business and financial risk profile of SCDCL & notched up the standalone rating considering the escrow mechanism and stipulation of a DSRA mechanism.

Outlook: Stable

SMERA believes that SCDCL will maintain a 'Stable' outlook over the medium term on the back of steady flow of rentals from the real estate segment. The outlook may be revised to 'Positive' in case the company generates healthy net cash accruals while improving the liquidity position. Conversely, the outlook may be revised to 'Negative' with deterioration in the financial profile on account of decline in cash accruals or deterioration in the financial risk profile and liquidity position.

Status of non-cooperation with previous CRA (if applicable)

None

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	78.18	58.80	53.75
EBITDA	Rs. Cr.	51.24	46.71	35.23
PAT	Rs. Cr.	7.73	2.74	5.19
EBITDA Margin	(%)	65.55	79.44	65.54
PAT Margin	(%)	9.89	4.66	9.65
ROCE	(%)	5.65	6.40	12.15
Total Debt/Tangible Net Worth	Times	31.35	8.31	8.71
PBDIT/Interest	Times	1.31	1.35	1.41
Total Debt/PBDIT	Times	20.32	12.18	12.59
Gross Current Assets (Days)	Days	2,174	2,831	3,062

Any other information:

- Timely interest and debt repayment of DHFL loan will remain key rating sensitivity factor

Note on complexity levels of the rated instrument

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

Status of non-cooperation with previous CRA (if applicable):

None

Rating History (Upto last three years)

The company has not been rated by SMERA in the past.

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	Not Applicable	500.00	SMERA BBB- (SO) / Stable

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ABOUT SMERA

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