

Press Release

Creo Developers Private Limited

February 26, 2020



Rating Reaffirmed

Total Bank Facilities Rated	Rs. 28.80 crore
Long Term Rating	ACUITE BB/ Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long term rating of '**ACUITE BB**' (**read as ACUITE double B**) to the Rs.28.80 crore bank facilities of Creo Developers Private Limited. The outlook is '**Stable**'.

Creo Developers Private Limited (CREO) was incorporated in 2011. The company entered into an agreement with Karnataka State Road Transport Corporation (KSRTC) for design, develop, operate and transfer of a multi-storey commercial building to be constructed on 1.06 acres land belonging to KSRTC. The company has entered into a long term lease agreement with Cognizant Technology Solutions India Private Limited (Cognizant) during March 2018 and has started lease rentals from September 2018.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of CREO to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The company is promoted by Yenepoya family having experience in many sectors including real estate, transportation, health care and education, among others. Acuité believes that the company will benefit from the experience of the management over the medium term.

- **Long-term lease agreement with reputed client**

The company's entered into a long term lease agreement with Cognizant Technologies during March 2018, with long tenure of 15 years, along with a lock-in period of 3 years, provides adequate revenue visibility and assured cash inflows over the medium term. The monthly lease rent is subject to escalation at the rate of 14 percent on the last paid rent, every three years. Acuité believes that long-term lease agreement and adequate cushion in form of lease rentals would support the business risk profile of the company over the medium term.

Weakness

- **Below average financial risk profile**

The company's financial risk profile is marked by low net worth, high gearing and weak debt protection metrics. The net worth of the company stood at Rs.2.89 crores as on March 31, 2019 as compared to Rs.6.14 crores as on March 31, 2018, due to loss of Rs.3.75 crores in FY2019. The company's lease agreement with Cognizant Technologies has commenced from March 2018 and rentals started from September 2018, while the amount to be paid to KSRTC has commenced from 2011 thus resulting in cash flow mismatch. The company has high gearing at 15.09 times as on March 31, 2019 as against 4.37 times as on March 31, 2018 due to the low net worth base. The total debt facility of Rs.39.82 crore comprises of long term debt of Rs.38.97crore and maturing obligations of Rs.0.85 crore as on March 31, 2019. The debt protection metrics of the company is marked by Interest Coverage Ratio at 0.31 times as on FY2019 and Debt Service Coverage Ratio at 0.25 times as on FY2019. Acuité believes going forward with no debt funded capex plan, the financial risk profile is expected to improve over the medium term.

Rating Sensitivity

- Consistent long lease rentals
- Improvement of financial risk profile

Material Covenants

None

Liquidity Profile

The company's liquidity is stretched marked by negative cash accruals of Rs.3.75 crores in FY2019 as against Rs.0.85 crore maturing obligation over the same period. As mentioned above, the company's lease agreement with Cognizant Technologies has commenced from March 2018 and rentals started from September 2018, while the amount to be paid to KSRTC has commenced from 2011 thus resulting in cash flow mismatch. The cash and bank balance stood at Rs.0.18 crore as on March 31, 2019. CREO's surplus cash after payment of property taxes, Common Area Maintenance (CAM) and other expenses, is expected to be above Rs.6.10 crore, against repayment obligations in the range of Rs.4.72 crore to 5.38 crore over the medium term. Hence, Acuité believes that going forward the company's liquidity position would improve on account of adequate cash flows from the long lease agreement with Cognizant over the medium term.

Outlook: Stable

Acuité believes that the outlook of CREO would remain stable on account of the consistent revenue visibility expected through lease rental and experienced management. The outlook may be revised to 'Positive' in case of consistent healthy cash accruals or early repayment of its term loan leading to improvement of its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further debt funded capex or less-than-expected cash accruals leading to deterioration of its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19(Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	3.55	-
PAT	Rs. Cr.	(3.75)	0.01
PAT Margin	(%)	(105.74)	-
Total Debt/Tangible Net Worth	Times	15.09	4.19
PBDIT/Interest	Times	0.31	-

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

None

Any other information

Not Applicable

Applicable Criteria

- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities- <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
06-Dec-2018	Term Loan	Long Term	25.00	ACUITE BB/Stable (Reaffirmed)
	Proposed Term Loan	Short Term	3.80	ACUITE BB/Stable (Reaffirmed)

*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	27.11.2018	9.75%	15.09.2032	28.80	ACUITE BB/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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