

Press Release

Creo Developers Private Limited

February 03, 2021



Rating Upgraded

| | |
|------------------------------------|--|
| Total Bank Facilities Rated | Rs. 41.08 crore (Enhanced from Rs.28.80 crore) |
| Long Term Rating | ACUITE BB+/ Stable (Upgraded from ACUITE BB/Stable) |

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BB+**' (**read as ACUITE double B plus**) from '**ACUITE BB**' (**read as ACUITE double B**) on the Rs.41.08 crore bank facilities of Creo Developers Private Limited (CREO). The outlook is '**Stable**'.

The rating upgrade is on account of improvement in the overall business risk profile of the company marked by a steady increase in the operating revenue and improvement in profitability levels. The operating revenue of the company has grown from Rs.3.55 crores in FY2019 to Rs.8.17 crores in FY 2020. CREO's operating margin has improved from 42.90 per cent in FY2019 to 65.08 per cent in FY2020. Similarly, the profit after tax margin has improved from negative 105.74 per cent in FY2019 to 2.55 per cent in FY2020. Acuité believes that the entity would sustain the revenue growth and improved profitability going forward too resulting in better cash accruals. The higher accruals would, in turn, translate into improvement in their capital structure and debt protection measures.

Creo Developers Private Limited is a Mangalore based company incorporated in 2011. The company entered into an agreement with Karnataka State Road Transport Corporation (KSRTC) to design, develop, operate and transfer a multi-storey commercial building 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. The company is currently headed by Mr. Yenepoya Mohammed Farhad, Mr. Yenepoya Abdulla Javeed, Mr. Yenepoya Moideen Rizwan, Mr. Moideen Noufal and Mr. Yenepoya Moideen Khurshid.

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 of eight decades 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 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, providing 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 the form of lease rentals would support the business risk profile of the company over the medium term.

Weakness

- Customer concentration risk**

CREO primarily generates cash flows via lease rentals from Cognizant. The company's ability to meet its repayment obligations will be dependent on the continued and timely flow of rentals from its tenant. The occurrence of events such as delays in receipt of rentals, early exits or renegotiation may result in disruption of

cash flow streams, thereby affecting CREOA's debt servicing ability. The renewals leasing at better terms, any significant renegotiations by the lessees can adversely impact the cash flows. However, the strong counterparty risk mitigates the risk to a large extent.

- **Below average financial risk profile**

The company's financial risk profile is marked by low net worth, high gearing and improving debt protection metrics. The net worth of the company stood at Rs.3.09 crores as on March 31, 2019 as compared to Rs.2.89 crores as on March 31, 2019, due to retention of profits. Acuité has considered unsecured loans of Rs.6.27 crores as on March 31, 2020 as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. The company has high gearing at 13.59 times as on March 31, 2020 as against 13.76 times as on March 31, 2019 due to the low net worth base. The total debt facility of Rs.41.94 crore comprises of long term debt of Rs.41.06 crore and maturing obligations of Rs.0.88 crore as on March 31, 2019. The debt protection metrics of the company is marked by Interest Coverage Ratio at 1.33 times as on FY2020 against 0.31 times as on FY2019 and Debt Service Coverage Ratio at 1.05 times as on FY2020 against 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

- Timely receipt of long lease rentals
- Improvement of financial risk profile

Material Covenants

None

Liquidity Profile: Adequate

The company's liquidity is adequate marked by cash accruals of Rs.1.07 crores in FY2020 as against Rs.0.85 crore maturing obligation over the same period. The cash and bank balance stood at Rs.0.38 crore as on March 31, 2020. CREO's surplus cash after payment of property taxes, Common Area Maintenance (CAM) and other expenses, is expected to be above Rs.6.20 crore, against repayment obligations in the range of Rs.4.27 crore to 4.93 crore over the medium term. The company has neither availed loan moratorium nor COVID loan. 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 the deterioration of its liquidity.

About the Rated Entity - Key Financials

| | Unit | FY20(Actual) | FY19(Actual) |
|-------------------------------|---------|--------------|--------------|
| Operating Income | Rs. Cr. | 8.17 | 3.55 |
| PAT | Rs. Cr. | 0.21 | (3.75) |
| PAT Margin | (%) | 2.55 | (105.74) |
| Total Debt/Tangible Net Worth | Times | 13.59 | 13.76 |
| PBDIT/Interest | Times | 1.33 | 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-53.htm>
- Default Recognition -<https://www.acuite.in/view-rating-criteria-52.htm>

- Infrastructure Entities- <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings / Outlook |
|-------------|---------------------------------|-----------|------------------|-------------------------------|
| 26-Feb-2020 | Term Loan | Long Term | 28.80 | ACUITE BB/Stable (Reaffirmed) |
| 06-Dec-2018 | Term Loan | Long Term | 25.00 | ACUITE BB/Stable (Assigned) |
| | Proposed bank facility | Long Term | 3.80 | ACUITE BB/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 | 27.11.2018 | 9.75% | 15.09.2032 | 41.08(Enhanced from Rs.28.80 crore) | ACUITE BB+/Stable (Upgraded) |

Contacts

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|---|--|
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About Acuité Ratings & Research:

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