

Press Release

Sarla Infrastructure Private Limited

October 16, 2020

Rating Assigned



Total Facilities Rated*	Rs.400.00 crore
Long Term Rating	ACUITE BBB/Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.400.00 crore bank facilities of Sarla Infrastructure Private Limited (SIPL). The outlook is '**Stable**'.

Bangalore based SIPL was incorporated in 2009 by the Embassy Group with intent to undertake commercial construction projects for the group. The Embassy group is one of the leading real estate developers and has a presence of more than 2 decades in the real estate industry. SIPL is 100 percent owned by the Embassy Property Developments Private Limited (EPDPL), which is a flagship company of Embassy Group. Currently, SIPL is constructing a Build to Suit office with a total built-up area of 1.1 million square feet in Embassy Tech Village (ETV) in Bangalore, which will be leased out to a BFSI client for a tenure of 120 months. SIPL and the client executed a registered Agreement to Lease contract (ATL) on August 2018 for the same.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the SIPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Strong market position of Embassy Group in the real estate industry**

SIPL was incorporated in 2009 as a SPV by the Embassy group. The Embassy group promoted by Mr. Jitendra Virwani is one of the leading real estate developers and has a presence of more than 25 years in the real estate industry. The group has established track record of developing land of more than 55 million square feet across Indian and international markets including Bangalore, Chennai, Hyderabad, Pune, Coimbatore, Trivandrum, Serbia and Malaysia. The group has specific focus and expertise in developing luxury housing and commercial real-estate. The group has an extensive land bank of 1000+ acre across India. The group has collaborated with several established real estate players such as Blackstone and Four Seasons Hotels Limited, to execute projects through various SPVs. In April 2019, the Embassy group along with Blackstone formed India's first Real Estate Investment Trust (REIT), which is a vehicle for owning and operating revenue generating real estate assets and distributes cash flows from them to the unit-holders.

Acuite believes that the SIPL will continue to benefit from the established market position of the Embassy group over the medium term.

- **Revenue visibility under lease arrangement from BFSI client**

SIPL executed a registered ATL with a leading BFSI Multinational Company (MNC) in August 2018 to lease out a Built to Suit office area located in Bangalore. The total built up area is 1.1 million square feet and will be leased out for 120 months with an escalation of 15 percent every three years, which provides revenue visibility going forward. The total office area will be handed over to the client in two phases, i.e. Phase I and Phase II and in two different time periods. The final handover of Phase I is expected to be executed in mid of CY2021 and the lease rentals will start from the same period. Subsequently, final handover of Phase II is expected to be executed in the end of CY2022 and the lease rentals will start from the same period.

Acuite believes that reputed clientele and regular receipts of rentals are expected to keep the revenues and cash flows stable going forward.

- **Strategic location of the project in Bangalore**

SIPL is currently developing a project in Embassy Tech Village (ETV), Bangalore. ETV is a business park of ~103 acres located in Sarjapur-Outer Ring Road stretched towards the south east of Bangalore. ETV currently has

a rental generating area of 6.50 million square feet with over 99% of occupancy and another 2.50 million square feet under construction. The clientele is well diversified and more than 75% of the tenants are Fortune 500 companies/MNC's like Wells Fargo, Flipkart, Cisco, Moody's Analytics and Sony India, to name a few. Further, the Outer Ring Road has emerged as an important commercial hub of Bangalore with an establishment of significant commercial activity primarily focused towards Special Economic Zone (SEZ) and Non SEZ developments. Along with the increased commercial activity, the region has also witnessed the development of other real estate components such as residential apartments, etc. Some of the prominent commercial developments along Sarjapur-Outer Ring Road apart from Embassy Tech Village are RMZ Ecospace, RMZ Ecoworld etc.

Weaknesses

• Timely execution of the project

The total project is divided into three blocks, A, B & C with a total leasable area of 1.1 million square feet, including 1726 car parking slots. The construction of the blocks are divided into two phases i.e. Phase I, which includes the construction of Block A & B and Phase II includes the construction of Block C with a combined total cost of around Rs.608 crore. The project is funded by Construction Finance (CF) loan of Rs.425 crore and the rest is through equity and security deposit from the client. The construction was started in June 2019 and as on Q1FY2021, SIPL has already incurred cost of around Rs.327 crore out of which the promoters have brought in equity to the tune of Rs.131 crore. The construction and final handover of Phase I is expected to complete by mid of CY2021 and Phase II by the end of CY2022.

Acuite believes that any delays in the execution of the project leading to cost overrun will remain a key rating sensitivity factor.

• Customer concentration risk in revenue receipts

The repayment of the CF loan is expected to be done by LRD loan against the lease rentals from the client. The company's ability to meet its repayment obligations will be dependent on the continued and timely flow of rentals as per the agreed terms under the arrangement. The occurrence of events such as delays in receipt of rentals, or early exits/renewal by the client due to the latter's lower than expected business performance may result in disruption of cash flow streams, thereby affecting SIPL's debt servicing ability. However, the risk is partially mitigated to an extent by the initial lock in period of 5 years.

Rating Sensitivities

- Timely refinancing measure for the repayment of construction finance loan
- Completion of the project in the scheduled timeline

Material Covenants

None

Liquidity position: Adequate

SIPL liquidity position is adequate, marked by sufficient cash inflows to service its debt obligations. The company is currently doing a Built to Suit project for a BFSI client which will be leased out for 120 months. The total cost of the project is Rs.608 crore, which is funded by construction finance loan of Rs.425 crore and the rest Rs.183 crore will be funded through promoter's contribution. As on Q1FY2021, the promoters have infused around 131 crore, providing adequate liquidity to service its debt obligations. The principal repayment will be made in two bullet repayment stances of Rs.210 crore in Sep, 2021 and Rs.215 crore in Mar, 2023 through LRD loan against lease rentals from the client. Going forward, the company is planning to refinance these loans with a LRD loan at the time of each bullet repayment.

Acuite believes that the ability of the company to complete the project within specified timelines without any major cost overruns and to timely refinance the loans will be a key rating sensitivity.

Outlook: Stable

Acuite believes that SIPL will maintain a 'Stable' outlook over the medium term on account of the established market position of the Embassy group in the real estate industry. The outlook may be revised to 'Positive' in case of early payment of its debt obligations while maintaining its cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any delay in project completion or refinancing of its loan resulting in significant cash flow mismatches or in case of any renegotiations by the client leading to lower than expected cash flows impacting its debt servicing ability.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	-	-
PAT	Rs. Cr.	(17.75)	(0.32)
PAT Margin	(%)	-	-
Total Debt/Tangible Net Worth	Times	(17.96)	(1008.14)
PBDIT/Interest	Times	0.44	0.82

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Real Estate Entities- <https://www.acuite.in/view-rating-criteria-63.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Tem Loan	June, 2020	10.5%	Mar, 2023	400.00	ACUITE BBB/Stable (Assigned)

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About Acuite Ratings & Research:

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