

Press Release
Sarla Infrastructure Private Limited

May 11, 2020



Rating Withdrawn

Total Facilities Rated*	Rs.400.00 crore
Long Term Rating	ACUITE BBB (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has withdrawn the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.400.00 crore bank facilities of Sarla Infrastructure Private Limited (SIPL).

The rating is being withdrawn at the company's request and receipt of NOC from the banker. The withdrawal is in accordance with Acuité policy on withdrawal.

About the company

Bangalore based SIPL was incorporated as an SPV 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 presence of more than 2 decades in the real estate industry. Earlier, SIPL was 100 percent owned by the Embassy Property Developments Private Limited (EPDPL), which is a flagship company of Embassy Group. However, in Dec, 2020 SIPL was acquired and 100 percent owned by Embassy REIT. 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.

Analytical Approach

Acuité 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 developer and has 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 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) known as Embassy REIT, which is a vehicle for owning and operating revenue generating real estate assets and distributes cash flows from them to the unit-holders. Further, SIPL is now wholly owned subsidiary of Embassy REIT after acquiring SIPL in Dec, 2020.

Acuité 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 has 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 end of CY2022 and the lease rentals will start from the same period.

Acuité 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 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 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 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 construction of Block A & B and Phase II includes construction of Block C with a combined total cost of around Rs.608 crore. The project was 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.

Acuité 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 company's revenues will be dependent on the continued and timely flow of rentals as per the agreed terms under arrangement. The occurrence of events such as delays in receipt of rentals, or early exits/renegotiation by the client due to the latter's lower than expected business performance may result in disruption of cash flow streams. However, the risk is partially mitigated to an extent by the initial lock in period of 5 years.

Rating Sensitivities

Not Applicable

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 lease out for 120 months. The total cost of the project is Rs.608 crore, which was funded by construction finance loan of Rs.425 crore and the rest Rs.183 crore will be funded through promoter's contribution. In Q1FY2021, the promoters infused around Rs.131 crore which provided adequate liquidity to service the near term debt obligations. However, the construction finance loan was completely repaid before due time after the acquisition of SIPL by Embassy REIT in Dec, 2020.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	-	-
PAT	Rs. Cr.	(17.75)	(0.32)
PAT Margin	(%)	-	-
Total Debt/Tangible Net Worth	Times	(24.79)	(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)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Oct-2020	Term Loan	Long Term	400.00	ACUITE 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	June, 2020	10.5%	Mar, 2023	400.00	ACUITE BBB (Withdrawn)

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About Acuité Ratings & Research:

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