

October 30, 2013

Facilities	Amount (Rs. Crore)	Rating Assigned
Term Loan	200.0	SMERA BB-/Stable (Assigned)

SMERA has assigned a rating of '**SMERA BB-**' (read as **SMERA Double B Minus**) to the above-mentioned bank facilities of Seaview Developers Limited (SDL). The outlook is '**Stable**'. The rating is constrained by the company's exposure to project execution and market risk, geographic concentration risk and high competition prevalent in the IT SEZ construction business. The rating is also constrained by the rising vacancy levels in IT SEZs. The rating positively factors in the benefits derived by the company from increasing lease rentals (which are currently adequate to meet the monthly debt repayments), and reputed clientele.

SDL, a joint venture between Unitech Corporate Parks Plc (UCP-Plc) and Unitech Limited, is involved in the development of a 30-acre IT Park in Sector 135, Noida Special Economic Zone (SEZ). The project is slated to be completed by December 2016. The total estimated lease area is 33.50 lakh sq. ft. comprising 11 towers of which six towers (15.85 lakh sq. ft.) are leased out till date. Of the remaining five towers, three towers are in the advanced stage of completion while two towers are in the nascent stage of construction. SMERA believes the inherent project risks may constrain SDL's credit risk profile over the medium term. Although about 50 per cent of the project is leased out, various current and upcoming SEZ developments in the NCR region make the company susceptible to the risk of excess supply in its area of operations. Timely execution of projects in a cost efficient manner and at healthy absorption rates is a key rating sensitivity. The rating factors in the company's geographic concentration in the Noida real estate market, which is characterized by intense competition and rising vacancy levels. Currently, the total office stock in Noida is estimated at 25.5 mn. sq. ft. with a vacancy level of 28.6 per cent. However, SDL's project has relatively lower vacancy rates.

SDL has been successful in leasing out almost 50 per cent of the project area and the lease rentals have increased annually. In FY2012-13 (refers to financial year, April 01 to March 31), the company registered lease rentals of Rs.44.25 crore as compared with lease rentals of Rs.32.55 crore in FY2011-12. The company's monthly cash outflow towards term loan principal repayment and interest (currently capitalized) is adequately covered by the monthly lease rentals. The lessees include reputed companies such as Metlife, Accenture, Steria and Genpact. SDL also benefits from favorable lease terms, which provide for a lock-in period of three to five years (thus safeguarding the company against a sudden decline in rentals). The lease agreements are extendable up to fifteen years.

Considering the current execution status, the project is likely to be completed by 2016. SMERA believes that the project will require additional funding over the medium term. Unitech Corporate Parks Plc (SDL's Parent Company holding 60 per cent through its subsidiaries) is primarily focused on the development of IT SEZs and IT Parks suitable for foreign direct investment (FDI).

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Outlook: Stable

SMERA believes SDL's outlook will remain stable in the near term on the back of assured lease rentals from existing agreements and support from UCP-Plc. The outlook may be revised to 'Negative' in case of higher debt requirement or delays in project execution and unfavourable changes in the investment policy of UCP-Plc. Conversely, the outlook may be revised to 'Positive' in case the company generates larger-than-expected cash flows while executing projects ahead of schedule and achieving the targeted lease rentals.

About the company

SDL was incorporated in 2005 as a joint venture between Unitech Corporate Parks PLC and Unitech Limited. SDL is engaged in developing of an IT Park in Sector 135, Noida special economic zone (SEZ). Unitech Corporate Parks Plc holds 60 per cent stake (through subsidiary) in SDL while the remaining 40 per cent stake is held by Unitech Limited (through subsidiary).

For FY2012-13, SDL reported operating revenues of Rs.77.21 crore and PAT of Rs.33.46 crore as compared with revenues of Rs.56.12 crore and PAT of Rs.12.66 crore for FY2011-12. SDL has low leverage at 0.89 times as on March 31, 2013.

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