

December 24, 2014

Facility	Amount (Rs. Crore)	Rating
Term Loan	200.00	SMERA BB-/Positive (Reaffirmed)

SMERA has reaffirmed the rating of '**SMERA BB-**' (**read as SMERA double B minus**) on the Rs.200.00 crore long-term bank facility of Seaview Developers Limited (SDL). The outlook is revised to '**Positive**' from '**Stable**'. This revision in outlook reflects improvement in the company's financial profile after takeover of indirect shareholding by BSREP India Office Holdings Pte Ltd., Singapore (Brookfield; an affiliate of Brookfield Property Group, New York). BSREP India Office Holdings Pte Ltd. has a significantly stronger credit profile compared to Unitech Corporate Park PLC (the erstwhile owners of SDL).

SDL's rating continues to derive support from healthy lease rentals which are adequate to meet the monthly debt repayment obligation. The rating also draws comfort from the company's reputed clientele. However, the rating is constrained by the company's exposure to project execution and geographic concentration risks. The rating notes that the company is exposed to intense competition in the IT SEZ construction business.

Update

SDL is undertaking development of a 30-acre IT park in Sector 135, Noida Special Economic Zone (SEZ). The project is slated to be completed by December 2019. The total project area is 33.50 lakh sq. ft, comprising 11 towers, of which seven towers (18.47 lakh sq. ft.) are leased out till date. Of the remaining four towers, two towers are in the advance stage of completion, while the other two towers are in the nascent stage of construction. SDL has successfully leased out ~57 per cent of the project area. The company's lease rental income has increased annually. SDL registered lease rentals of Rs.52.40 crore in FY2013-14 (refers to financial year, April 01 to March 31), as compared with lease rentals of Rs.44.25 crore in the previous financial year. The company's operating income increased from Rs.79.37 crore in FY2012-13 to Rs.112.90 crore in FY2013-14. SDL reported operating profit margin of 59.11 per cent in FY2013-14, as compared with operating profit margin of 60.92 per cent in FY2012-13.

As on March 31, 2014, around 60 per cent of stake in SDL was indirectly held by UCP-PLC (listed on London Stock Exchange), while the balance 40 per cent stake was held by Aditya Properties Pvt. Ltd. (APPL, associate company of Unitech Ltd). In FY2014-15, Brookfield acquired 60 per cent stake in SDL by purchasing the holding of UCP-PLC. Further, IDFC Ltd. acquired 40 per cent stake in SDL (in FY2014-15) by invoking shares pledged by APPL against loans raised by Unitech Ltd.

SDL is likely to benefit from the strong backing of Brookfield, which is a part of the Brookfield Asset Management Group (a global alternative asset manager with \$200 billion in assets under management).

SDL's monthly cash outflow towards term loan principal repayment and interest is adequately covered by monthly lease rentals. The company's lessees include reputed entities such as Metlife, Accenture, Steria and Genpact. SDL also benefits from favourable lease terms which provide for a lock-in period of three to five years. The lease rental agreements are extendable up to 15 years.

SMERA believes SDL's credit risk profile is susceptible to project execution risk. The company is also exposed to the risk of excess supply arising from various current and upcoming SEZ developments in NCR. SDL's operations are concentrated in the Noida real estate market, which is witnessing intense competition and rising vacancy levels.

SDL's project is likely to be completed by 2019. SMERA believes the project will require additional funding over the medium term.

Outlook: Positive

SDL's rating has a 'Positive' outlook. SMERA believes the company will benefit from assured lease rentals from existing agreements. SDL is also poised to benefit from the expected support from Brookfield. The rating may be upgraded in case SDL registers substantial growth in cash flows from operations while ensuring timely completion of the ongoing project. The rating may also be upgraded in case Brookfield extends sustained support to SDL. The outlook may be revised to 'Stable' in case of deterioration in SDL's debt servicing ability.

About the company

SDL, incorporated in 2005, is a Delhi-based company engaged in developing an IT park in Sector - 135, Noida SEZ. SDL is currently owned by Brookfield (60 per cent stakeholder through subsidiary entity) and IDFC Ltd. (40 per cent stakeholder).

For FY2013-14, SDL reported profit after tax (PAT) of Rs.30.91 crore on operating revenue of Rs.112.90 crore, as compared with PAT of Rs.34.69 crore on operating revenue of Rs.79.37 crore in FY2012-13. The company's net worth stood at Rs.337.64 crore as on March 31, 2014, as compared with Rs.288.65 crore a year earlier.

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