

January 08, 2015

Facility	Amount (Rs. Crore)	Rating
Term Loan	493.00	SMERA BB/Positive (Rating Reaffirmed, Outlook Revised)

SMERA has reaffirmed the rating of '**SMERA BB**' (**read as SMERA double B**) on the Rs.493.00 crore long-term bank facility of Unitech Hi Tech Structures Limited (UHTSL). 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 owner of UHTSL).

UHTSL's rating continues to derive support from healthy lease rentals which are adequate to meet the monthly debt repayment obligation of the company. 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 faces intense competition in the IT SEZ construction business.

Update

UHTSL is developing a 45-acre IT Park in New Town, Rajarhat, Kolkata Special Economic Zone (SEZ). The project is slated to be completed by December 2021. The total project area is 44 lakh sq. ft. The project comprises 18 towers, of which 13 towers with total area of 25.20 lakh sq. ft. are complete. The company has leased out nine towers with total area of 19.78 lakh sq. ft. (~57 per cent of the project area). UHTSL registered lease rentals of Rs.73.35 crore in FY2013-14 (refers to financial year, April 01 to march 31), as compared with lease rentals of Rs.77.43 crore in the previous financial year. The company's operating income declined from Rs.132.87 crore in FY2012-13 to Rs.128.37 crore in FY2013-14. UHTSL reported operating margin of 55.71 per cent in FY2013-14, as compared with operating margin of 62.64 per cent the previous financial year.

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

UHTSL 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.

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

SMERA believes UHTSL'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 Kolkata. UHTSL's operations are concentrated in the Kolkata real estate market, which is witnessing intense competition and rising vacancy levels.

Outlook: Positive

UHTSL's rating has a 'Positive' outlook. SMERA believes the company will continue to benefit from the healthy lease rentals from existing agreements. UHTSL is also poised to benefit from the expected support from Brookfield. The rating may be upgraded in case UHTSL 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 UHTSL. The outlook may be revised to 'Stable' in case of deterioration in UHTSL's debt servicing ability.

About the company

UHTSL, incorporated in 2005, is a New Delhi-based company engaged in developing an IT Park in New Town, Rajarhat, Kolkata Special Economic Zone (SEZ). UHTSL is currently owned by Brookfield (60 per cent stakeholder through subsidiary entity) and IDFC Ltd. (40 per cent stakeholder).

For FY2013-14, UHTSL reported profit after tax (PAT) of Rs.34.13 crore on revenues of Rs.128.37 crore, as compared with PAT of Rs.64.75 crore on revenues of Rs.132.87 in FY2012-13. The company's net worth stood at Rs.485.97 crore as on March 31, 2014, as compared with Rs.451.84 crore a year earlier.

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