



SMERA RATINGS LIMITED

ETA Technopark Limited (ETL)

Rating
RationaleJune 17, 2014

Facilities	Amount (Rs. Crore)	Rating
Term Loan	400.00	SMERA B/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA B**' (read as **SMERA single B**) to the above-mentioned bank facilities of ETA Technopark Limited (ETL). The outlook is '**Stable**'. The rating is constrained by the company's exposure to project execution risk amidst weak demand scenario and intense competition prevalent in the IT SEZ business. The rating is further constrained by the company's below-average financial risk profile. The rating factors in the susceptibility of the company's debt servicing ability to delays in receipt of rental income. However, the rating is supported by the company's reputed clientele. The rating also draws comfort from the high occupancy level in the constructed area of the company's project.

ETL, incorporated in 2006, is a part of the Chennai-based ETA ASCON Group. ETL is setting up an Information Technology (IT) Park (named as ETA Technopark) in a special economic zone (SEZ) on Old Mahabalipuram Road, Chennai. The SEZ is spread over 26.36 acres, with total built-up area of ~43.8 lakh square feet (sq. ft). The project was proposed to be completed in two phases; Phase - I comprising Block I and Block IV (proposed to be completed by March 2007) and Phase - II comprising Block II, Block III and podium (proposed to be completed by January 2010). Currently, the company has completed Phase - I (with total area of 6.2 lakh sq. ft.) and podium and part building construction of Phase - II (with total area of approx. 8.8 lakh sq. ft.), which accounts for ~35 per cent of the total planned area. SMERA believes the inherent project completion risks may constrain ETL's credit risk profile over the medium term. Moreover, ETL is susceptible to the risk of excess supply arising from current and upcoming SEZ developments in Chennai. However, the management's decision to construct additional floor space only after receiving firm agreements from its prospective tenants partly mitigates the aforementioned risk. ETL is also exposed to weak demand scenario on account of general economic slowdown, which may pressurize growth in the company's rental income.

ETL's financial risk profile is marked by a high leverage of 2.42 times as on March 31, 2013 and low interest coverage ratio of 1.12 times in FY2012-13. Further, the company has extended long term advance for purchase of land (as per provisional financials for the period April 2013 to February 2014) to its related entity. ETL's cash flows are constrained as a large portion of the company's lease rentals are applied towards debt servicing. Hence, ETL's debt repayment ability is highly susceptible to delays in receipts of monthly rentals.

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Rationale**

ETL benefits from its lease agreement with HCL Technologies, which occupies 81 per cent of the total constructed floor space of ETA Technopark. The aforementioned lease agreement has been renewed (at incremental rental rate) for a period of four years.

Outlook: Stable

SMERA believes the outlook on ETL's rated facilities will remain stable over the medium term on account of the high occupancy level in the constructed area of the company's project. ETL will continue to benefit from its established association with HCL Technologies. The outlook may be revised to 'Positive' if ETL generates sustained growth in rental income while achieving a comfortable financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile on account of higher-than-envisaged debt requirements.

About the company

ETL, incorporated in 2006, is a Chennai-based company promoted by Mr. Syed Abdul Cader, Mr. Khalid Buhari and Mr. Abdul Qadir. ETL is setting up an IT Park in a special economic zone (SEZ) on Old Mahabalipuram Road, Chennai. The SEZ is spread over an area of 26.26 acres and has total built-up area of 43.8 lakh sq. ft. ETL is a part of the ETA Ascon Group.

For FY2012-13, ETL reported net loss of Rs.0.06 crore on revenues of Rs.51.35 crore, as compared with net profit of Rs.0.39 crore on revenues of Rs.43.65 crore for FY2011-12. ETL's net worth stood at Rs.179.15 crore as on March 31, 2013.

About the group

ETA ASCON Group, based in U.A.E, has expertise in civil construction, electro mechanical projects, elevator engineering and facilities management. The group has undertaken several real estate projects in U.A.E, India and Sri Lanka.

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