

## Elnet Technologies Limited (Revised)

January 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Issuer rating - Issuer rating	0.00	CARE A-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The issuer rating assigned to Elnet Technologies Limited (ETL) continues to derive strength from the established track record of its operations, favourable location of the IT Park, healthy occupancy levels, comfortable capital structure and adequate liquidity. However, the rating continues to be constrained by the company's relatively small scale of operations with presence in single location, risk associated with the renewability of lease agreements, and counterparty credit risks.

### Rating sensitivities: Factors likely to lead to rating actions.

#### Positive factors

- Significant improvement in the total operating income (TOI) while maintaining low leverage profile.

#### Negative factors

- Any significant increase in the debt level for capital expenditure leading to increase in the overall gearing of the company to above 0.40x.
- Reduction in the overall occupancy level of the IT Park below 70% on a sustained basis.
- Any incremental exposure to the group companies which may lead to moderation in the liquidity profile.

### Analytical approach: Standalone

#### Outlook: Stable

The Stable outlook reflects CARE Ratings Limited's (CARE Ratings') belief that the company will continue to derive benefit from healthy occupancy levels, the favourable location of the asset and adequate liquidity.

### Detailed description of the key rating drivers:

#### Key strengths

##### Established track record of operations with diversified clientele

Incorporated in 1990, ETL is one of the first IT Parks developed in Chennai on a land measuring 3.16 acres. The land was handed over for development of IT Park through a government order in 1991 and the commercial operations begun in 1996. The IT Park has a leasable space of 2.30 lsf and has been leased out to multiple small and mid-sized players. The IT Park has a stable track record of operations, and the overall occupancy level of the property continues to remain strong at 90% as on September 30, 2023. The client base is mostly small and mid-sized players with majority of them being backend service and support providers in IT/ITES to various industries. Average floor area of the IT Park ranges from 3,500 sq. ft. to 10,000 sq. ft. Major tenants include Sterling Software, Quintessence Business Solutions and Services Pvt Ltd, Crayon Data India Pvt Ltd, Karur Vysya Bank, Information Dynamics India, etc.

##### Favourable location of IT Park

The IT Park is located in the region encompassing Taramani and Thiruvanmiyur on Old Mahabalipuram Road (OMR) which is known as the IT hub of Chennai. The region has emerged as a preferred office destination by the IT/ITES sector, concentrated by top global players in the industry. Its proximity to the city centre, easy access to the airport, availability of good quality office buildings, good connectivity by roads & rail (MRTS), developed social infrastructure and presence of key residential areas in its vicinity are key demand contributors to attract major IT/ITES occupiers.

##### Healthy occupancy levels

The occupancy level of the asset continues to remain strong at 90% as on September 30, 2023, as corporates continued to remain committed towards work from office/hybrid model over work from home. In the past three fiscals, the occupancy level stood strong over 85%. Considering strong occupancy level, the company continues to enjoy consistent revenue stream with TOI of nearly ₹25 crore. The lease agreements are generally for a period of 3-5 years with a lock-in period of 1-5 years with in-built escalation clause of lease rent hike of 5% every year.

##### Comfortable capital structure

The capital structure of ETL is marked by low overall gearing which stood at 0.03x as on March 31, 2023. The company has not availed any long-term loans or working capital facility. As on March 31, 2023, the total debt outstanding is ₹4.26 crore in the form

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

of unsecured loans availed from the group entity, 'Stur Technologies'. Currently, there are no plans to avail additional debt and hence financial risk profile of the company is expected to remain comfortable. While there are no expansion plans in consideration, the company may undertake new projects in medium term, and hence, its impact on the capital structure remains monitorable.

### Industry outlook: Stable

The office leasing segment is likely to remain stable induced with many positive developments upcoming in the sector. CARE Ratings expects the completion in new office as well as absorption metrics to improve in the near term. Also, rentals have been observed to improve quarter-on-quarter, and vacancy levels have remained sustained. The market has demonstrated healthy take away to investors in the real estate sector, particularly Real Estate Investment Trust (REIT). Hence, the investment in the sector is hopeful to rise. In terms of end-user industry, though non-tech sectors are witnessing rise in various parameters, dominance of IT and ITeS is expected to continue in leasing activity over the medium term. In lieu of the same, the impact of global headwinds from IT sluggishness is likely to remain monitorable.

### Key weaknesses

#### Renewal risk of lease contracts

ETL has entered into lease agreements with various tenants, with most of them ranging for a term period of 3–5 years with the lock-in period of 1-5 years. Post this the tenants have an option to terminate the lease agreement by giving 6 months' notice without any charges. In next 12 months, lease contracts for more than 25% of occupied area are due for renewal. Hence, company is exposed to the renewal risk for these contracts. However, demonstrated track record of renewals in the past mitigates the risk to a large extent. CARE Ratings draws comfort from the fact that majority of the tenants have carried out their own fit-outs which enhances the tenant stickiness.

#### Counterparty risk

The company is exposed to the counterparty risk as majority of the tenants are small and mid-sized IT/ITES players providing back-end support services to various industries. However, comfort is drawn from the fact that the company undertakes necessary due diligence of each tenant before entering into a lease agreement and securing 10 months rental as security deposit (in respect of majority of the tenants). As on March 31, 2023, ETL holds cancellable and non-cancellable deposits related to lease rentals to the tune of ₹13.56 crore. The total rental receivables from the tenants stood low at ₹2.41 crore.

#### Relatively small scale of operations with presence in single location

ETL has only one operating IT Park which has an average floor plate space ranging from 3,500 sq. ft. to 10,000 sq. ft., thereby attracting only small/mid-sized companies as tenants. Also, the IT Park is in the proximity to larger ones like Ramanujam IT City (45 Isf) and Tidel Park (12.8 Isf), which offer wider floor plates and premium facilities/amenities.

However, it is partly mitigated by prime location of the asset, competitive rate, long-term stickiness of clients, and steady occupancy levels. Also, the concentration risk is low due to diverse tenants occupying the premises and no particular tenant is occupying more than 15% of the total leasable area.

### Liquidity: Adequate

The liquidity profile of the ETL is adequate with sufficient cash accruals as against no long-term repayment obligations. The company holds cash and cash equivalent of close to ₹100 crore, mainly in the form of bank fixed deposits as on September 30, 2023. The company does not have any debt, with the working capital requirements being met by internal accruals without any debt.

### Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Nonfinancial Sector](#)

[Issuer Rating](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Rating methodology for Debt backed by lease rentals](#)

### About the company and industry

ETL (CIN no: L72300TN1990PLC019459) is a Chennai-based company engaged in the business of developing and maintaining software technology parks. ETL is a JV promoted by Electronics Corporation of Tamil Nadu Ltd. (ELCOT - a Government of Tamil Nadu Undertaking) with 26% holding, Stur Technologies Pvt Ltd (STPL; formerly New Era Technologies Private Limited) with 11.25% holding, Southern Projects Management Pvt Ltd (SPMPL) with 6.36% holding, and Shanmugam Thiagarajan – Individual holding about 9.24% aggregating to total promoter's holding of 52.85%. ETL established an IT Park - Elnet Software city (ESC) at Old Mahabalipuram road (OMR), Taramani, Chennai. The land was handed over for development of IT Park through a government order in 1991 and the commercial operations begun in 1996. In 1999, ELCOT (Electronics Corporation of Tamil Nadu Ltd) had acquired the land from Government of Tamil Nadu and agreed to lease it to ETL for a period of 90 years from the year 1999. The IT Park is an integrated block of two towers with a leasable area of 2.30 lakh square feet (Isf). Since inception, the IT

Park has been enjoying healthy occupancy levels. ETL is a listed entity with promoter shareholding of about 52.85%, Government shareholding of 0.17%, and about 46.98% is held by public.

### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Realty	Realty	Residential, commercial projects

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1 FY24 (UA)
Total operating income	22.08	24.61	13.48
PBILDT	15.71	15.78	9.08
PAT	12.61	13.70	8.68
Overall gearing (times)	0.04	0.03	0.03
Interest coverage (times)	33.28	24.71	30.23

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Issuer rating-Issuer ratings	-	-	-	-	0.00	CARE A-; Stable

### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Issuer rating-Issuer ratings	Issuer ratings	0.00	CARE A-; Stable	1)CARE A-(Is); Stable (02-Jan-24)	1)CARE A-; Stable (27-Jan-23) 2)CARE A-; Stable (26-Dec-22)	1)CARE A-(Is); Stable (30-Dec-21)	1)CARE A-(Is); Stable (21-Dec-20)

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Issuer rating-Issuer ratings	-

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

**Contact us**

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**About us:**

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