Elpro International Limited

April 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	400.00	CARE BBB+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Elpro International Limited (EIL) derives strength from established promoter group with presence across diverse business verticals, strategic location of the properties, diversified tenant profile comprising reputed tenants & healthy occupancy level along with improving operational performance, comfortable capital structure marked by satisfactory total debt to rentals and presence of escrow mechanism and presence of Debt Service Reserve Account (DSRA).

The rating, however, is constrained by risk of non-renewal of expiring lease contracts given relatively short track record of the retail mall with major renewals being due in FY25 and cyclicality associated with real estate industry with competition from other developers.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in occupancy level above 90% in the retail mall while maintaining average lease rentals and Cash Coverage Ratio (CCR) above 1.50x on a sustained basis.
- Renewal of rental agreement with the lessees of the mall

Negative factors

- Significant delay in receipt of lease rentals on continuous basis.
- Non-renewal of expiring lease contracts leading to moderation in occupancy (< 75%) and cash coverage indicators.
- Any further substantial support given to group companies.

Analytical approach: Standalone

Outlook: Stable

Given healthy occupancy in all the properties (business park and the retail mall) over the years with tenant profile comprising of reputed tenants, it is expected that the company will maintain occupancy at satisfactory level with timely rent escalation as anticipated such that the financial risk metrics continue to remain comfortable.

Detailed description of the key rating drivers:

Key strengths

Established promoter group with presence across diverse business verticals: EIL promoted by the Dabriwala family has been in the real estate development industry for more than two decades. The first generation of the family owned Raniganj coal mines till its nationalization in the 60s. The second generation (Mr. R.K. Dabriwala) ventured into manufacturing industry and entered into tie ups with General Electric (GE) to form – EIL (which was primarily into manufacturing of power distribution equipment's like surge arrestors, varistors, etc) and with Fenner to form - International Conveyors Limited (CARE BBB; Stable/ CARE A3+) which is engaged in manufacturing of conveyor belts for underground mining.
The third generation of the family, Mr. Surbhit Dabriwala, in the late 90s divested the company's operational profile by entering into real estate development industry and also entered into a joint venture (JV) with MetLife for insurance business with around 30% stake which was later diluted when PNB became a part of the JV over the years. The promoter group also runs a school – Elpro International School under its charitable trust, Hind Charity Trust.

Strategic location of the properties: The company owns 40 acres of land in the Pimpri-Chinchwad area (automotive hub) of Pune. In its first phase of development in 2007, the company completed its maiden project 'Elpro Vision Exchange'. Subsequently, the company completed another three projects 'Elpro Metropolis', 'Elpro Business Bay' and '1Elpro Park' collectively referred as One Elpro Park (OEP). It comprises of industrial sheds along with the state-of-the-art infrastructure catering mainly to automotive engineering companies for setting up their R&D facilities at this business park. In June 2019, the company commissioned its mall

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[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

– 'Elpro City Square Mall', located in the heart of the Pimpri Chinchwad Municipal Corporation (PCMC) spread across 8 lakh square feet with parking facility for more than 4000 vehicles. The mall accommodates more than 100 outlets of brands across different categories. The mall also houses 8 reputed fine dining chains along with a multiplex, an entertainment zone and a first of its kind auditorium-in-a-mall with a seating capacity of over 650 people. The properties are well connected with the International Airport, Pune's business centres and residential areas in the vicinity.

Diversified tenant profile comprising reputed tenants & healthy occupancy level along with improving financial performance: OEP spread across leasable area of 5.6 lakh sq.ft has been operational for more than 2 decades with almost full occupancy. The tenant profile of the OEP includes clients like Varroc Engineering Limited, WILO Mather and Platt Pumps Private Limited (rated CARE A-; Stable/ CARE A2+), etc.
Further, almost 40% of the area has been leased out to Hind Charity Trust (rating revised from CARE BBB-: Stable to CARE BB+; Stable (INC) vide PR dated August 03, 2023) which is managed by the same promoter group. All the lease contracts stipulate rent escalation clause of 5% every year or 15% every third year.

The retail mall is spread across leasable area of 5.3 lakh sq.ft out of which the company has sold 1.7 lakh sq. ft. Occupancy of the mall has witnessed steady improvement from 68% as on Mar 2021 to 85% as on Dec 2023. Out of the total leased area in the mall of 3.14 lakh sq.ft, around 50% is leased out to top 10 tenants as on Dec 31, 2023. The tenant profile of the mall comprises reputed tenants like PVR Inox, Shoppers Stop Limited, Lifestyle, Marks & Spencer, Puma, Raymond, etc; with a rent escalation clause of 15% every third year stipulated in the lease agreement. The steady increase in occupancy levels has reflected in the improved total operating income of the company which has recorded a y-o-y growth of ~37% in FY23 to Rs.99 crores vis-à-vis Rs.72 crores in FY22. The average rental (Minimum Guarantee only) currently stands at Rs.90.86 per sq. ft per month for the mall and Rs.41.88 per sq. ft per month for the OEP. Apart from minimum guarantee rentals, all the lease contracts of the mall stipulate rent escalation clause of 15% every third year coupled with revenue share component as well. Revenue share from occupants of the mall has shown steady improvement from Rs.1.01 crore in FY21 to Rs.3.68 crore in FY23. Majority of the lease renewal contracts of the mall fall due in FY25. Renewal of such agreements remain one of the key rating sensitivities.

Comfortable capital structure marked by satisfactory total debt to rentals: The capital structure of the company is comfortable marked by overall gearing of 0.10x as on March 31, 2023 as against 0.05x as on March 31, 2022 and 0.94x as on March 31, 2022.
The company sold 21,34,02,479 shares of PNB MetLife India Insurance Company Limited for cash consideration of Rs. 1323.10 crores at a realised profit of Rs. 1099.71 crores in FY22. As a result, the company's shareholding in PNB MetLife reduced significantly from 11.42% in FY21 to 1% in FY22. The company utilized those by investing in blue chip listed equities. As on Dec 31, 2023, the market value of such investments stood at Rs.810 crores. Moreover, the company has extended loans & advances to its wholly owned subsidiary (incorporated in April 2022 – "Ultra Sigma Private Limited") amounting to Rs.167 crores as on Mar 31, 2023 (~Rs.83 crores as on Dec 2023). As on December 31, 2023, the total market value of EIL's investment portfolio stood at Rs. 1375.86 crores.
The moderation in the overall gearing as on Mar 31, 2023 was owing to availment of loan-against-securities (LAS). In October 2023, the company has availed lease rental discounting (LRD) loan of Rs.145 crores and a DLOD of Rs.55 crores from Kotak Mahindra Bank against the rentals derived from the mall.
The company has also availed a DLOD of Rs.135 crores from HDFC Bank against the rentals of the OEP. As on date, the current outstanding of the same stands at Rs.1 crore.
The company has an outstanding LAS facility of Rs. 189 crores as on Dec 31, 2023. The security cover for all LAS facilities is 2x. The company has pledged listed equity investments having market value of Rs.584 crores out of total listed equity investments of Rs.810 crores.
Debt to rental for the mall and OEP (considering only fixed rentals and excluding LAS loan) stood at 4.52x and 0.30x as on Dec 31, 2023 and remained satisfactory. Assuming full drawdown of Rs.135 crore DLOD facility, debt to rental for OEP would stand at 4.14x.

Presence of DSRA albeit some delay in receipts of lease rentals from the tenants: EIL raises monthly invoices for lease rentals in the first week of every month for both – mall and OEP while debt obligations (incl. principal and interest) fall due by 15th of every month thereby reducing the risk of any mismatch in the cash flows from operations to a certain extent. The lease rental collection from its tenants is regular in case of mall while payments pertaining to OEP are being received with some delays in case of few of the tenants. Timely collection of lease rentals from OEP tenants remain one of the key rating monitorable.
As on December 31, 2023, the average monthly rental income from the mall is Rs 3.69 crores as against EMI of Rs.2.53 crores whereas the average monthly rental income from the OEP is Rs.2.72 crores (including monthly non escrowed rentals of around Rs.1.30 crores) as against EMI of Rs.1.30 crores (assuming full drawdown).

As per the term of sanction, EIL shall deposit the lease rental income along with receipts of car parking charges, fit-out charges and common area maintenance, etc in the escrow account which shall be first utilized towards payment for taxes and statutory payments, interest and principal repayment of LRD loan and then towards followed by payment of operational, administrative and maintenance expenses. Further, EIL is required to maintain DSRA equivalent to ensuing 3 months principal and interest repayment. As on Dec 31, 2023, the o/s balance of DSRA stood at Rs.6.68 crores for the retail mall and Rs.0.50 crores for OEP.

Key weaknesses

Risk of non-renewal of expiring lease agreements given relatively short track record of the retail mall: The retail mall generally enters into leave and license agreements with the lessees for a tenure of five years with a rent escalation clause of 15% after every third year. Since the mall became operational in FY19, majority of the tenant agreements are to set expire within the next 9 months which leaves the mall exposed to the risk of non-renewal of lease agreements. However, the renewal risk is mitigated to a large extent due to lower lease rental rates as compared to the similar malls in the vicinity, reputed tenants coupled with increasing occupancy over the years.

Cyclicality associated with real estate industry with competition from other developers: The capital-intensive real estate industry is highly cyclical in nature. The industry which was battered hard in 2008 after the turbulence in the global financial markets had shown signs of recovery until 2016 when the sector was once again hit badly with the demonetization move, followed by regulations such as RERA and the Insolvency & Bankruptcy Code. This resulted into significant liquidity crunch for the sector owing to subdued demand as well as slow rate of approvals. With the improvement in macro-economic conditions in the country, the real estate sector is expected to attain a gradual recovery. Fundamentals for the commercial real estate have improved with visible improvement in business sentiments. Further, the company faces moderate competition from existing as well as new developments which may provide spaces with modern amenities at competitive rates.

Liquidity: Adequate

The liquidity position is adequate with projected net cash inflows expected to be sufficient to meet debt repayment obligations in in FY24. As on December 31, 2023, the average monthly rental income from the mall is Rs 3.69 crores as against EMI of Rs.2.53 crores whereas the average monthly income from the OEP is Rs.2.72 crores as against EMI of Rs.1.30 crores (assuming full drawdown).
As on Dec 31, 2023; the o/s balance of DSRA stood at Rs 6.68 crores for retail mall and Rs.0.50 crores for OEP (equivalent to 3 months EMI). The average utilization of Kotak Mahindra DLOD limit for the last 5 months ended Feb 2024 stood at around 90%. As on December 31, 2023, the company has free liquid investments of around Rs. 394 crores which aids liquidity position.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Rating methodology for Debt backed by lease rentals

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Realty	Realty	Real Estate related services

Elpro International Ltd. (EIL) was incorporated in July 1962 as a public limited company, in technical and financial collaboration with General Electric, USA ("GE"). Headquartered in Pune, its operations included manufacturing and distribution of power distribution equipments like Surge Arresters and Disconnecting Switches (Isolators), with manufacturing set-up located in Pimpri-Chinchwad area, near Pune. Over the past years, the company has divested its Isolator set-up in Hyderabad to Siemens Ltd and has scaled down its operations in Pune and has ventured into real estate development of the 40 acres of land in Pimpri-Chinchwad area owned by it, in phases. Currently, 99.56% of the total leasable area (5.62 lakh sqft) is leased out in the OEP and 85% of the total leasable area (3.14 lakh sqft) in the retail mall.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24(UA)
Total operating income	72.43	98.94	83.05
PBILDT	34.80	34.96	49.70
PAT	989.16	41.30	24.44
Overall gearing (times)	0.05	0.10	-
Interest coverage (times)	1.53	7.61	3.34

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	15-09-2035	145.00	CARE BBB+; Stable
Fund-based - LT-Working Capital Limits		-	-	-	255.00	CARE BBB+; 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	Fund-based - LT-Term Loan	LT	145.00	CARE BBB+; Stable				
2	Fund-based - LT-Working Capital Limits	LT	255.00	CARE BBB+; Stable				

LT: Long term

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	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple

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 for any clarifications.

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About us:
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