Sandhya Infocity Limited

April 24, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	310.00	CARE BB; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Sandhya Infocity Limited (SIL) is constrained by high tenant concentration risk, moderate occupancy levels, cancellation risk of the existing leases and moderately leveraged capital structure. The ratings are also constrained by modest governance practices with multiple qualifications in the auditor's report with respect to internal controls and absence of documentation with respect to value of investment property. The rating, however, derives strength from reputed tenant profile, long term lease agreements and adequate debt protection metrics with escrow mechanism in place.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Diversification of clientele profile resulting in lower tenant concentration risk.
- Improvement in occupancy rate above 90% leading to improvement in total debt/ profit before interest, lease rentals, depreciation, and taxation (TD/PBILDT) below 3.50x.
- Improved governance practices while addressing auditor's qualifications.

Negative factors

- Significant decline from existing occupancy level.
- Deterioration in TD/PBILDT above 5x.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects that SIL is expected to sustain its occupancy levels and maintain its credit profile.

Detailed description of the key rating drivers:

Key weaknesses

High tenant concentration risk and cancellation risk of existing leases

The top three tenants of the company occupy 90% of the total leased area and account for 91% of the total lease revenue. HCL group, the primary tenant, accounts for around 79% of the total lease revenue in FY24. The IT-exclusive nature of the SEZ park limits the company to tenants from the IT industry, creating an industry concentration risk. Lock in period in majority of the existing lease agreements has expired and carry the risk of cancellation. However, the risk is mitigated to a certain extent with long-term association with primary tenants and long-term validity period of existing lease contracts.

Vulnerability of the cash flows to fluctuation in rentals and rise in interest rates

The company's cash flow stability is subject to two key external factors: occupancy rates and interest rates. Occupancy over the last three years sits at 77%, translating into stable cash flow. However, any decrease due to competition, tenant relocation, or economic downturns would directly impact cash flow. Similarly, the company's debt carries inherent interest rate risk. Rising rates would increase future EMI payments, potentially straining cash flow and affecting the debt service coverage ratio (DSCR). To mitigate these risks, maintaining high occupancy rates with favourable lease terms and long-term lock in periods is crucial.

Key strengths

Reputed tenant profile and long-term lease contracts supporting steady cashflows

SIL currently hosts 8 tenants namely HCL Technology, Fujitsu Consulting, First Source, Team Detailing Solutions, AVA Software, Aspire Systems, NGP and Fourshore BPO Ltd. HCL occupies 78% of the total leased area followed by Fujitsu Consulting (11.75%) and First Source (5.84%). Current lease agreements with major tenants have long term validity ranging between 2028 to 2033 supporting stable rentals in the medium term.

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

Favourable location of the park

IT park of SIL is located at Navalur,Chennai which is about 25 km away from the main city. Navalur is one of the key IT hubs in Chennai with most of the IT majors having office base in this location. There are many upcoming and established office spaces and IT parks in the vicinity leading to higher competition. The company is expected to benefit from the imminent arrival of a metro station enhancing accessibility and attractiveness of its location.

Liquidity: Stretched

Liquidity is stretched with tightly marked accruals against its repayment obligations. The escrow mechanism is in place for collection of rentals ensuring timely availability of cash for meeting debt obligation. No DSRA stipulation from the bank; However timely collection of rentals should support the liquidity of the company. The company's unencumbered cash and cash equivalents stood low at Rs.0.21 crores as on 31.03.2023.

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
Rating methodology for Real estate sector

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Realty	Realty	Residential, Commercial Projects

Sandhya Infocity Limited (SIL) operates a commercial office space (IT SEZ Park) at Navalur,Chennai. The IT Park is spread across 22 acres and has a total leasable area of 15.56 lakh square feet. The park has been operational since 2007 under the name ETA Technopark Ltd and subsequently in FY18 it was acquired by KKN group and was renamed as Bayline Infocity Ltd. During FY20, the park was acquired by the current promoters and was renamed to Sandhya Infocity Ltd. Day-to-day operations of the park is managed by a team of professionals. Promoters are based out of Hyderabad. The promoters have experience in construction and project management, and they have previously developed commercial spaces in Hyderabad.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Feb 29, 2024 (UA)
Total operating income	107.37	111.91	105.54
PBILDT	78.88	76.80	72.43
PAT	28.82	28.43	NA
Overall gearing (times)	2.01	1.59	NA
Interest coverage (times)	2.45	2.57	NA

A: Audited; UA: Unaudited; NA: Not available; 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 to 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: Please refer to Annexure-4

Lender details: Please refer to 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-Lease rental discounting/ Rent Receivables Financial		-	-	May-2034	310.00	CARE BB; 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 2024-2025	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
1	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	310.00	CARE BB; 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-Lease rental discounting/ Rent Receivables Financial	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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