

## Elnet Technologies Limited

January 27, 2023

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.

The issuer rating is subject to the company maintaining overall gearing not exceeding 0.40 times.

### Rationale and key rating drivers

The Issuer ratings assigned to Elnet Technologies Limited (ETL) continue to derive strength from the established track record of the company in operating the IT Park, favourable location of the IT Park, higher 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

- Increase in total operating income above Rs. 40 Cr

#### 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 group companies which may lead to moderation in liquidity profile

**Analytical approach:** Standalone

### Key strengths

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

ETL is one of the first IT Parks to be set up in Chennai and it began its operations in the year 1996. The IT Park has a leasable space of 2.30 Lsf and has been rented 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 high and stood at 92% as on December 31, 2022 (83% as on October 31, 2021). 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, Mahindra First Choice, 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 much 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 some of the reasons that have led the above region to attract major IT/ITES occupiers.

#### Healthy occupancy levels

As on Dec 31, 2022, the occupancy level continues to remain good due to strong demand from IT/ITES players on account of relaxation of Covid lockdowns by state government which has shifted the working model back to physical offices and presence of IT park in prominent location. The occupancy level was almost 92% on Dec 31, 2022 as compared to 83% in October 31, 2021. The company continues to enjoy consistent revenue stream with long association from tenants. 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 / 15% for every three years.

<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

**Comfortable capital structure**

The capital structure of ETL is marked by overall gearing which remains low and stood at 0.04x as on Mar 31, 2022. The company hasn't availed any long-term loans or working capital facility. As on Mar 31, 2022, the total debt outstanding is Rs. 4.26 Cr in the form of unsecured loans availed from the group entity 'Stur Technologies'. Since the nature of business is leasing, the company's operational expenditure is low and reported strong PAT margins (57%) in FY22. The management has indicated that there is no debt funded CAPEX programme plans over the medium term.

**Key weaknesses****Renewability risk of lease contracts**

ETL has entered into lease agreements with various tenants. Most of the agreements range for term period of 3–5 years with the lock-in period of 1-5 years, after which the tenants have an option to terminate the lease agreement by giving 6 months' notice without any charges. As on Dec 31, 2022, occupancy level has increased to 92% from 83% on Oct 31, 2021 mainly on account of favourable macro-economic factors resulting in strong demand in office spaces and presence in prime location. Further, in next 12 months, lease contracts for 61,348 sq.ft occupied area are due for renewal.

Also, with respect to other clients whose contracts are due, they have been operating out of the same place for more than 3 years and are expected to renew their contracts at the end of the period. On account of the same, renewability risk is largely mitigated. Also, comfort can be drawn from the fact that majority of the tenants have carried out their own fit-outs partly mitigating the risk of renewability to a certain extent in future.

**Counterparty risk**

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 on 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, 2022, ETL holds cancellable & non-cancellable deposits related to lease rentals to the tune of Rs. 12.53 crores.

As on March 31, 2022, total rental receivables from the clients stood at Rs.2.05 crores as against Rs.3.08 crore as on March 31, 2021.

**Relatively small scall 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 located in the proximity to larger ones like Ramanujam IT City (45 lsf) and Tidel Park (12.8 lsf) which offer wider floor plates and premium facilities/amenities.

However, it is partly mitigated by positive factors such as comfortable location, proximity to railway station, 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 occupying more than 15% of the total leasable area.

**Liquidity - Strong**

The liquidity profile of the ETL is adequate with sufficient cash accruals as against no long-term repayment obligations. During the financial year 2022, the company's GCA remains stable which stood at Rs. 15.77 Cr (PY: Rs. 15.48 Cr). The company holds cash & cash equivalence of Rs. 94.38 Cr mainly in form of bank FDs as on Sep 30, 2022. The company does not have any debt, even the working capital requirements are met by internal accruals without any debt. The company raises lease rental bills on 1<sup>st</sup> of every month, car parking, maintenance bills on 15<sup>th</sup> of every month and the tenants are allowed to settle the bill by the month end which effectively turns out to 30 days average collection period. As far as creditors is concerned, company settles the outstanding bills within 3 weeks.

**Industry Outlook: Stable**

Chennai office market witnessed gross leasing volumes of 1.69msf during the fourth quarter (Q4 CY22). There was an 11% drop in leasing volume compared to previous quarter, although almost entirely (98%) dominated by fresh lease unlike in the previous three quarters.

Despite, the emergence of concepts of work from home and work near home, the impact on commercial spaces has remained moderate as the existing leases and commitments are being honoured and some of the occupiers, especially with good credit standing continue to remain dedicated to the leased office spaces. The commercial office space also benefitted from the resilience by IT/ITES sector, one of the key office space occupiers.

## Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Issuer Rating](#)

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

[Rating Outlook and Credit Watch](#)

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

[Rating methodology for Real estate sector](#)

## About the company

Elnet Technologies Ltd. (ETL) is a Chennai based company engaged in the business of developing and maintaining Software Technology Parks. ETL is a Joint-Venture (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 Mr. Shanmugam Thiagarajan – Individual holding about 9.24% cumulating to total promoter's holding of 52.85%. ETL established an IT Park - Elnet Software city (ESC) at Old Mahabalipuram road (OMR), Taramani, 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. In 1999, ELCOT (Electronics Corporation of Tamil Nadu Ltd) had acquired the land from Govt. 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 lakhs square feet (lsf). Since inception, the IT Park has been enjoying healthy occupancy levels. ETL is a listed entity with promoter shareholding of about 52.85% and about 47.15% is held by public.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1 FY23 (UA)
Total operating income	21.36	22.09	11.73
PBILDT	15.51	15.72	8.14
PAT	12.00	12.63	7.55
Overall gearing (times)	0.04	0.04	NA
Interest coverage (times)	21.54	33.45	NA

A: Audited; UA: Unaudited; NA: Not Available

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

**Any other information:** Not Applicable

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

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

**Complexity level of the 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
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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE A-; Stable	1)CARE A-; Stable (26-Dec-22)	1)CARE A-(Is); Stable (30-Dec-21)	1)CARE A-(Is); Stable (21-Dec-20)	1)CARE A-(Is); Stable (06-Nov-19)

\*Long term/Short term

**Annexure-3: Detailed explanation of the 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 for any clarifications.

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### About us:

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