

## Elnet Technologies Limited

December 30, 2021

### Rating

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Issuer rating Issuer Rating	-	CARE A- (Is); Stable (Single A Minus) (Issuer Rating; Outlook: Stable)	Reaffirmed
<b>Total Instrument</b>	-		

Details of instruments/facilities in Annexure-1

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

### Detailed Rationale & Key Rating Drivers

The issuer rating assigned to Elnet Technologies Limited (ETL) continues to derive strength from established track record of the company in operating the IT Park, favourable location of the IT Park, healthy occupancy levels, granularity in lessee profile, comfortable capital structure and adequate liquidity. 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

#### Positive rating sensitivities – factors that could lead to positive rating action/upgrade

- Significant increase in the lease rentals and sustenance of the same

#### Negative rating sensitivities – factors that could lead to negative rating action/downgrade

- 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.

### Outlook: Stable

#### Detailed description of the key rating drivers

##### Established track record of operations

ETL, through a joint venture (JV) between Stur Technologies Pvt Ltd (STPL; formerly New Era Technologies Private Limited) and Electronics Corporation of Tamil Nadu Ltd (ELCOT), set up one of the first IT parks in Chennai in 1996. ELCOT is a wholly-owned Government of Tamil Nadu undertaking to promote, establish and run State Public Sector Enterprises for Electronic items and assist any enterprise for the advancement and development of all branches of electronics or relating to electronics. The promoters of ETL also has experience in developing and operating another IT Park – IG3 Infra Limited in Chennai, which has leasable space of around 34 lakh sq. ft. (Isf).

As on September 30, 2021, ELCOT holds 26% stake in the company, STPL holds 11.25% stake, Southern Projects Management Pvt Ltd (SPMPL) holds 6.36% stake and Mr Shanmugam Thiagarajan holds 9.24% stake in the company. As per the company's Articles of Association, the Board shall elect the Chairman from among the Directors of the company nominated by or representing ELCOT. Mr Ajay Yadav, IAS, is currently the Chairman of the company.

ETL is managed by Ms Unnamalai Thiagarajan (Managing Director), who has an experience of over two decades in the real estate/ construction business, and handles the day-to-day operations of the company.

The IT Park has a stable track record of operations and the overall occupancy level continues to be healthy and stood at 88% as on October 2021 similar to previous year's 88% as on October 2020. It has a leasable space of 2.3 lakh sq. ft. (Isf) and has been rented out to multiple small and mid-sized players.

#### Favourable location of the IT Park

The IT Park is favourably located in Taramani, Old Mahabalipuram Road (OMR), which is a hub for IT/ITES-related businesses in Chennai. The region is a preferred office destination by the IT/ITES sector, concentrated by corporates like TCS, CTS, Accenture, Wipro, HCL, etc. Its proximity to the city centre, availability of good quality office buildings, developed social infrastructure and presence of key residential areas in its vicinity have led the above region to attract major IT/ITES occupiers. The IT Park has good connectivity by roads, suburban railway and easy access to the airport.

#### Healthy occupancy levels notwithstanding moderation witnessed during H1FY22 due to impact of COVID-19

Occupancy level of the IT Park stood at 88% as on October 31, 2021, compared with 96% as on March 31, 2021. Fall in occupancy level was mainly on account of expiry of lease contracts for some of the clients as their lease contracts could not be renewed due to the impact of COVID-19. Also, the shift to remote working model by most of the IT/ ITES companies to maintain social distancing led to subdued demand for additional space. However, the demand has started picking up following the relaxation in lockdown norms and revival of normal operations by the clients. Notwithstanding the impact of COVID-19, the healthy occupancy levels coupled with the favourable location of the IT Park ensure stable revenue stream in the form of lease receipts. Total monthly receipts amount to around Rs.2.09 crore at current lease rental rates. Most of the lease agreements

<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

have incorporated escalation clauses of 3% to 5% for every year/ 15% for every three years and an average lock-in period of 1–5 years.

#### **Granularity of Lessee profile**

ETL's clientele is diverse and its major tenants include E Noah I Solutions India Pvt. Ltd., Sterling Software, Mahindra First Choice, Karur Vysya Bank, Information Dynamics India, Crayon Data (India) Private Ltd, etc., no single client has occupied more than 15% of the total leasable area, which reduces the concentration risk of clients to some extent. Top five clients have accounted for 47% of the total leasable area.

#### **Renewability risk of lease contracts**

ETL has entered into lease agreements with various tenants. Contract period in most of the agreements range from 3 to 5 years with lock-in period of 1 to 5 years, after which the tenants have an option to terminate the lease agreement by giving 6 months' notice without any charges. In next 12 months, 22% of existing lease agreements of the company are due for renewal. In the event of vacancy created by tenants, the ability of ETL to find replacement in a timely manner is critical to its prospects. However, comfort can be drawn from the fact that most of the clients have carried out their own fit-outs and are operating out of the IT Park for a long time.

#### **Counterparty risk**

Majority of the tenants are small and mid-sized companies providing back-end IT support services to various industries. It is to be noted that credit profile of majority of ETL's tenants is moderate, hence exposing the company to risks arising due to delays in rental payments. However, the same is mitigated to an extent by way of security deposits from its tenants and established relationships with them.

As on October 31, 2021, total rental receivables from the clients is Rs.1.86 crore from Rs.3.08 crore as on March 31, 2021.

#### **Comfortable capital structure**

ETL has a comfortable capital structure with nil long-term debt obligations. As on March 31, 2021, overall gearing ratio stood at 0.04. Outstanding debt as on March 31, 2021, is in the form of unsecured loans amounting to Rs.4.26 crore from one of the promoter companies (STPL). This loan does not have any specific repayment terms and is repayable on demand. The company has tangible net worth of Rs.96.85 crore as on March 31, 2021, as against a tangible net worth of Rs.85 crore as on March 31, 2020.

#### **Relatively small size of operations with presence in single location**

ETL has only one operating IT Park, indicating concentrated nature of operations with the entire leasable area at a single location in Chennai. It has an average floor 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.

#### **Liquidity: Strong**

The company's liquidity position is adequate as characterised by the stable rental income from the tenants, low operational expenditure in the leasing business, stable gross cash accruals in the range of Rs.11 crore to 16 crore in the past three fiscals ended March 31, 2021, and no debt repayments/obligations in the near to medium term. In addition, ETL also has free cash and bank balance of Rs.81 crore of which Rs.78.95 crore is in FD as on October 31, 2021.

#### **Industry Outlook:**

Commercial Real Estate is witnessing a structural shift as many companies are adopting the remote working culture and have found it cost effective to have employees working from home. Demand would continue to remain subdued during FY22 with emerging work from home and shared workspace culture. Office rentals is to be impacted with the emergence of "Blended Work from Home" culture. On the contrary, despite the emergence of concepts of work from home and work near home, occupiers with healthy financial profile in grade A office spaces have continued to meet their existing leases and commitments on time which will not impact leasing agreements.

#### **Analytical approach:**

Standalone

#### **Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's Issuer Rating](#)

[Financial ratios \(Non-Financial Sector\)](#)

[CARE's rating methodology for real estate sector](#)

[Rating Methodology for debt backed by Lease Rental Discounting](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

### About the Company

Elnet Technologies Ltd. (ETL) is a Chennai-based company engaged in the business of developing and maintaining Software Technology Parks. It was established on August 1, 1990, and was promoted by ELCOT with 26% holding, STPL with 11.25% holding, SPMPPL with 6.36% holding and 9.24% holding by Mr Shanmugam Thiagarajan. ETL had entered into a long-term lease agreement with ELCOT to lease out land of 3.16 acres at Taramani, OMR, Chennai, and has established an Information Technology Park, which has been operational since 1996. The IT Park is an integrated building of two towers with a leasable area of 2.3 lakh sq. ft.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1 FY 2022 (P)
Total operating income	29	26.33	13.56
PBILDT	19	20.48	10.92
PAT	11	12	6.73
Overall gearing (times)	0.05	0.04	0.04
Interest coverage (times)	22.18	28.45	42.00

A: Audited; P: Provisional

### 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:** Not Applicable (Issuer Rating)

**Complexity level of various instruments rated for this company:** Annexure 4

### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Issuer Rating-Issuer Ratings		-	-	-	0.00	CARE A- (Is); Stable

### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Issuer Rating-Issuer Ratings	Issuer rating	0.00	CARE A- (Is); Stable	-	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 covenants of the rated instrument / facilities

### Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Issuer Rating-Issuer Ratings	

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. 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.

## Contact us

### Media Contact

Name: Mradul Mishra  
Contact no.: +91-22-6754 3573  
Email ID: [Mradul.Mishra@careedge.in](mailto:Mradul.Mishra@careedge.in)

### Analyst Contact

Name: Jaganathan A  
Contact no.: +91-44-2850 1000  
Email ID: [Jaganathan.A@careedge.in](mailto:Jaganathan.A@careedge.in)

### Relationship Contact

Name: Pradeep Kumar V  
Contact no.: +91-98407 54521  
Email ID: [Pradeep.Kumar@careedge.in](mailto:Pradeep.Kumar@careedge.in)

### About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

### Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careedge.in](http://www.careedge.in)**