

ASF Insignia SEZ Pvt Ltd

May 16, 2019

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Long term bank facilities	110.00	Provisional ²⁾ CARE BBB- (SO) ³⁾ ; Stable [Provisional CARE Triple B Minus (Structured Obligation); Outlook: Stable]	Assigned
Total Facilities	110.00 (Rupees One Hundred and Ten crore only)		

2) The above ratings are provisional and will be confirmed once the company submits copies of final sanction letters to the satisfaction of CARE.

3) The above rating is based on structured payment mechanism including the escrow account for the receivables, presence of DSRA equivalent to 3 months of interest and principle servicing as well as cross-collateralization of properties and receivables of both ASF and Kings Canyon SEZ Pvt Ltd.

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has adopted combined approach for analysis of ASF and Kings Canyon SEZ Pvt Ltd (KC) on account of common management and proposed sanction terms which stipulate cross-collateralization of receivables of both the entities for debt servicing.

The rating assigned to the proposed bank facilities of ASF Insignia SEZ Pvt Ltd (ASF) factors in experience of promoters having long track record of developing and leasing of properties in Gurgaon and NCR regions, prominent location of properties with benefits available on account of SEZ status, revenue visibility with lease agreements tied-up with reputed tenants and structured payment mechanism of Lease rental discounting (LRD) facility with presence of escrow and DSRA.

The rating strengths are, however, partially offset by agreement rollover risk, salability risk in the residential project 'Isle De Royale' with low sales momentum in the past, moderate debt coverage indicators as well as inherent risk in real estate industry on account of subdued demand scenario in the market.

Going forward, the ability to roll-over the existing lease agreements at escalated rates upon the expiry of lease tenor as well as achievement of the envisaged sales momentum in the residential project 'Isle-De-Royale' in order to maintain debt coverage indicators within the comfortable range during the loan tenor shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of developing and leasing properties: The ASF group has developed seven commercial properties (five in Gurgaon and two in Noida), with a total built-up area of more than 30l sf, that are leased out to various IT/ITeS and service sector companies. The group has already developed another building 'Kings Canyon' in the Gurgaon SEZ which is fully leased out.

Prominent location and SEZ-status of the properties: The project is located on the main Gurgaon-Faridabad Highway about 8 kms from Central Gurgaon. Given the project proximity to prominent locations and better connectivity, the building is fully occupied. Further, the project has an SEZ status which provides tax concessions to the developer including exemption from central/state sales tax, service tax and income tax (MAT applicable).

Long-term lease tie-ups with reputed lessees: The Company has signed lease agreements for ~100% of total area (9.19 l sf) of Grand Canyon with reputed MNC companies. These same tenants have also occupied space in the other building i.e. Grand Canyon belonging to the same group, thus, signifying their stickiness. The lease tenure varies from 5 to 10 years with lock-in period in the range of 3-9 years with escalation in rent at 15% after every 36 months. Moreover, the fit-out costs have been incurred by the tenants themselves, which further increases their stickiness to the building.

Structured payment mechanism for the loan: The proposed loan facility is availed against rentals from Kings Canyon building.

As per the proposed terms, the facility shall be backed by an escrow arrangement and stipulates maintenance of Debt Service Reserve Account (DSRA; equivalent to 3 months interest and principal) and exclusive charge of the lenders on the same. As per the escrow mechanism, the lessee would directly deposit the lease rentals in the bank on monthly basis

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

based on the pay-in dates as per the lease agreements. As per the waterfall mechanism, rent receivables shall first be utilized for payment of tax/ statutory dues, replenishment of DSRA and then for next immediate instalment. The remaining balance shall then be released to the company.

Key Rating Weaknesses

Agreement rollover risk with loan tenor extending beyond the lease period: The proposed LRD term loan shall carry tenor of 15 years as against the remaining unexpired lease term of upto 5 years (which expires in FY23-24). Therefore, timely tie-up/ renewal of lease agreements at competitive rates with new/ existing tenants shall remain important for meeting its debt servicing obligations.

Salability risk in 'Isle De Royale' in light of slowdown in sales momentum in recent past: Till Jan-19, ASF Insignia has achieved sales of 0.88 lsf area i.e. 27% of total saleable area of 3.30 lsf. There has been slowdown in sales momentum primarily due to the restriction on sales of residential units to non-SEZ customers as per the SEZ rules.

However, the company is in process of obtaining the 'dual use approval' which would allow sales to outsiders. Therefore, the sales are expected to pick-up in the near-term. Nevertheless, there shall be high dependence on future sales at the envisaged rates in light of high debt repayment obligations post initial 1 year of moratorium.

Moderate debt coverage indicators

Debt coverage indicators are expected to remain moderate over the projected period due to limited cushion between lease rentals and debt repayment obligations as well as possibility of funds being utilized to meet the liquidity requirements in 'Isle De Royale' project. Also, there is limited cushion available between the pay-in and pay-out dates.

Marketing risk which is further contingent on demand outlook in commercial leasing space: Despite slowdown in commercial leasing in India, occupier market continues to remain robust, with IT/ ITes being the key driver. In Gurgaon, in particular, there has been moderation in office absorption which shall further have a bearing on the future rent inflows considering low occupancy in the building currently.

Liquidity

The liquidity profile of the company remained stable, marked by cash & bank balance of Rs.8.29 crore as on March 31, 2018 (Audited).

Analytical approach: Combined; CARE has adopted combined approach for analysis of KC and ASF on account of common management and proposed sanction terms which stipulate cross-collateralization of receivables of both the entities for debt servicing.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[CARE's methodology for Infrastructure Companies](#)

[CARE's methodology for financial ratios \(Non-Financial Sector\)](#)

[CARE's methodology for Factoring Linkages in Ratings](#)

About the Company

ASF Insignia SEZ Pvt Ltd (ASFInsignia), incorporated in 2005, is a special purpose vehicle (SPV) owned by ASF Buildtech Private Limited (ASB; 79% stake) and Kings Canyon SEZ Pvt Ltd (KC SEZ; 21% stake). The company is engaged in the development of residential project; Isle-De-Royale located in IT/ ITes sector specific SEZ in Gwal Pahadi, Gurgaon.

Brief Financials (Rs. crore)	FY17 (Audited)	FY18 (Audited)
Total operating income	85.91	42.56
PBILD	13.34	2.61
PAT	1.59	-24.55
Overall gearing (times)	0.84	3.90
Interest coverage (times)	1.55	0.10

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo 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.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan (Proposed)	-	-	-	110.00	Provisional CARE BBB-(SO); 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	110.00	Provisional CARE BBB-(SO); Stable	-	-	-	-

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