

## Elnet Technologies Limited

November 06, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Issuer Rating	-	CARE A- (Is); Stable [Single A Minus (Issuer Rating)]; Outlook: Stable	Assigned

*Details of instruments/facilities in Annexure-1*

The issuer rating is subject to the company maintaining overall gearing not exceeding 0.40 times as on March 31, 2020

### Detailed Rationale & Key Rating Drivers

*The issuer rating assigned to Elnet Technologies Limited (ETL) derives strength from experienced promoter, established track record of the company in operating the IT Park, favorable location of the IT Park, healthy occupancy levels providing revenue visibility in medium term, comfortable capital structure and liquidity.*

*The rating is, however, 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 Factors

- Significant escalation in lease rentals and sustenance of the same

#### Negative Factors

- Any significant increase in the debt level for capital expenditure resulting in increase of the company's overall gearing beyond 0.40x as on March 31, 2020
- Reduction in the overall occupancy level of the IT Park below 70% on a continuous basis

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Experienced promoter

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. ETL is managed by Ms. Unnamalai Thiagarajan (Managing Director) who has experience of over two decades in the real estate/ construction business and handles the day-to-day operations of the company. ELCOT is a wholly-owned Government of Tamil Nadu undertaking to promote, establish & run State Public Sector Enterprises for Electronic items and assist any enterprise for the advancement & development of all branches of electronics or relating to electronics. ELCOT's Managing Director, Mr. M Vijayakumar, IAS is the Chairman of Board of Directors of ETL.

One of the promoters also has experience in developing and operating other IT Park – IG3 Infra Limited (rated 'CARE BBB-; Stable') in Chennai, with leasable space of around 34 lsf.

As on March 31, 2019, ELCOT holds 26% stake in the company, STPL holds 11.25% stake and Southern Projects Management Pvt Ltd (SPMPL) holds 6.36% stake. 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. The experience of the promoter and the patronage of JV partner, ELCOT, would benefit the company in attracting and retaining tenants to occupy the IT Park.

##### Favorable 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 center, 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.

##### Established track record of operations with healthy occupancy levels and diversified clientele

The IT Park began its operations in 1996. The IT Park has a stable track record of operations and the overall occupancy level continues to remain high and stood at 98.60% as on September 2019. It has a leasable space of 2.3 lsf and has been rent out to multiple small and mid-sized players. ETL's clientele is diverse and its major tenants include Sterling Software, Mahindra First Choice, Quest Global Engineering Pvt Ltd, Karur Vysya Bank, Information Dynamics India, AGS Health Pvt Ltd, etc.

The healthy occupancy levels coupled with the favorable location of the IT Park ensure stable revenue stream in the form of lease receipts. Total monthly receipts amount to around Rs.1.66 crore at current lease rental rates. Most of the lease agreements have incorporated escalation clauses of 5% for every year/ 15% for every three years and an average lock-in period of 3–5 years.

<sup>2</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

For FY19, ETL registered total income of Rs.25.12 crore as against Rs.25.36 crore in FY18 (decrease on account of marginal dip in occupancy during Q1FY19 and Q2FY19). PAT and GCA stood at Rs.8.40 crore (PY: Rs.9.00 crore) and Rs.11.42 crore (PY: Rs.11.67 crore), respectively for FY19. During Q1FY20, the company registered total income of Rs.6.06 crore and PAT of Rs.2.51 crore as against total income and PAT of Rs.5.98 crore and Rs.2.06 crore in Q1FY19.

#### **Comfortable capital structure**

ETL has a comfortable capital structure with nil long term debt obligations. As on March 31, 2019, overall gearing ratio stood at 0.06x. Outstanding debt as on March 31, 2019 is in the form of unsecured loans amounting to Rs.4.26 crore from one the promoter companies (STPL). This loan does not have any specific repayment terms and is repayable on demand. The comfortable structure is mainly on account of the accretion of the profit to the net worth year on year. The company has net worth of Rs.75 crore as on 31 March 2019.

#### **Key Rating Weaknesses**

##### ***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 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.

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

ETL has entered into lease agreements for term period of 3–5 years with majority of its tenants. The lock-in period in most of the existing lease agreements is 3 years, after which the tenants have an option to terminate the lease agreement by giving 6 months' notice without any charges. Majority of the existing lease agreements of the company would be expiring between FY22-FY24. In the event of vacancy created by tenants, the ability of ETL to find replacement in a timely manner is critical to its prospects. Comfort can be drawn from the fact that majority of the tenants have invested in their own fit-outs partly mitigating the risk of renewability to a certain extent. Also as on October 2019, around 80% of the area leased is under the lock-in period. The higher proportion of area under lock-in guarantees lease receipts to ETL.

##### ***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.

#### **Liquidity: Adequate**

The company's liquidity position is adequate as characterized the stable rental income from the tenants, low operational expenditure in the leasing business, stable gross cash accruals in the range of Rs.10 to 11 crore in the past three fiscals ended March 31, 2019 and no debt repayments/obligations in the near to medium term. In addition, ETL also has free cash and bank balance of Rs.55 crore as on September 18, 2019 against Rs.43 crore as on March 31, 2019.

**Analytical approach:** Standalone

#### **Applicable Criteria**

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

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

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

[CARE's Issuer Rating](#)

#### **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 in 01/08/1990 and promoted by ELCOT with 26% holding, STPL with 11.25% holding and SPMPPL with 6.36% holding. 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)	FY18 (A)	FY19 (A)
Total operating income	25.36	25.12
PBILDT	14.83	15.34
PAT	9.00	8.40
Overall gearing (times)	0.06	0.06
Interest coverage (times)	NA	NA

A: Audited; NA: Not Applicable

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

**Any other information:** Not Applicable

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

#### 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
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 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.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE A- (Is); Stable	-	-	-	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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