

Elnet Technologies Limited

December 21, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Issuer Rating	-	CARE A- (Is); Stable (Single A Minus (Issuer Rating); Outlook: Stable)	Reaffirmed

Details of facilities in Annexure-1

The issuer rating is subject to the company maintaining overall gearing not exceeding 0.40 times as on March 31, 2021

Detailed Rationale & Key Rating Drivers

The issuer rating assigned to Elnet Technologies Limited (ETL) continues to derive strength from experienced promoter, established track record of the company in operating the IT Park, favorable location of the IT Park, healthy occupancy levels notwithstanding moderation witnessed during H1FY21 (refers to the period April 01 to September 30), 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 Factors - Factors that could lead to positive rating action/upgrade:

- Increase in diversification of revenue along with increase in scale of operations

Negative Factors- 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 as on March 31, 2021
- Reduction in the overall occupancy level of the IT Park below 70% on a sustained 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. 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 Isf.

As on September 30, 2020, 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 Thiagarjan 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. D. Ravichandran IAS is currently the Non-Executive Chairman of the company since November 11, 2020. 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 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 be healthy and stood at 88% as on October 2020 as against 98.60% on September 2019. It has a leasable space of 2.3 lakh sq.ft. (Isf) 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 Private Ltd, Karur Vysya Bank, Information Dynamics India, Crayon Data (India) Private Ltd etc.

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

Healthy occupancy levels notwithstanding moderation witnessed during H1FY21 due to impact of COVID-19

Occupancy level of the IT Park stood at 88% as on October 31, 2020 compared to 98.60% as on September 2019. 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 favorable location of the IT Park ensure stable revenue stream in the form of lease receipts. Total monthly receipts amount to around Rs.1.56 crore at current lease rental rates. Most of the lease agreements 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.

During FY20, ETL registered total income of Rs.28.99 crore as against Rs.25.12 crore in FY19. PAT for the period has improved to Rs. 10.83 crore as against Rs. 8.40 crore in FY19. During H1FY21, the company registered total income of Rs.13.25 crore (marginal dip due to fall in occupancy level) and PAT of Rs.5.98 crore compared to total income of Rs. 14.72 crore and PAT of Rs. 5.52 crore during H1FY20. Top five clients has accounted for 25% of total income in FY20 against 41% in FY19. However, no single client has occupied area more than 10% of the total leasable area which reduces the concentration risk of clients to some extent.

Comfortable capital structure

ETL has a comfortable capital structure with nil long term debt obligations. As on March 31, 2020, overall gearing ratio stood at 0.05x (PY: 0.06x). Outstanding debt as on March 31, 2020 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 networth of Rs.85 crore as on March 31, 2020 as against a tangible networth of Rs. 75 crore as on March 31, 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 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 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. Presence of lock-in period in the lease agreement ensures stability in occupancy level and attracts clients who can lease the space for longer duration. Occupancy level dropped to 88% as on October 2020 mainly on account of expiry of lease agreements for close to 8500 sq.ft. Further, in next 12 months, major portion 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. Most of the clients have renewed their contracts at the end of the contract period in the past and expected to do the same now also. On account of the same, renewability risk is largely mitigated.

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.

As on October 31, 2020, total rental receivables from the clients has increased to Rs. 4.73 crore from Rs.1.9 crore as on March 31, 2020 on account of pandemic infused unfavourable economic scenario.

Liquidity: Adequate

The company's liquidity position is adequate as characterized 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 to 14 crore in the past three fiscals ended March 31, 2020 and no debt repayments/obligations in the near to medium term. In addition, ETL also has free cash and bank balance of Rs.47 crore as on September 30, 2020.

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 in 01/08/1990 and 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)	FY19 (A)	FY20 (A)
Total operating income	25	29
PBILDT	15	19
PAT	8	11
Overall gearing (times)	0.06	0.05
Interest coverage (times)	21.91	22.16

A: Audited

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: Please refer Annexure-3

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Issuer Rating-Issuer Ratings	Issuer rating	0.00	CARE A- (Is); Stable	-	1)CARE A- (Is); Stable (06-Nov-19)	-	-

Annexure-3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument
1.	Issuer Rating-Issuer Ratings

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

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