

Kings Canyon SEZ Private Limited
January 02, 2020

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Long term bank facilities	600.00	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Assigned
Total Facilities	600.00 (Rupees Six Hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Kings Canyon SEZ Private Limited (KC SEZ) draws strength from the presence of experienced promoters having long track record of developing and leasing of properties, prominent location and SEZ-status, reputed lineage of leases with fit-outs done by the company along with structured payment mechanism of Lease rental discounting (LRD) facility with presence of escrow and DSRA.

The rating is however, constrained on account of agreement rollover risk with lock-in period expired for majority of the leased area, significant exposure to group entities, low coverage ratio of rentals vis-à-vis the debt servicing obligations coupled with vulnerability of cash flows to volatility in interest rate and cyclicity involved in the real estate sector.

Key Rating Sensitivities:**Positive-**

- Timely renewal/ fresh tie-ups at competitive rates upon the expiry of lease tenor
- Reduction in interest rates on loan facility

Negative-

- Non- renewal/ fresh tie-ups at competitive rates upon the expiry of lease tenor
- Increase in interest rates on loan facility
- Pre-mature termination of lease agreement with any of the tenants leading to reduction in occupancy rates

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 30lSf, 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 and tenants 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 lSf) 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.

The LRD-facility is availed against rentals from Building B-2 (Kings Canyon). The facility is backed by an escrow arrangement and stipulates maintenance of Debt Service Reserve Account (DSRA) and exclusive charge of the lenders on the same. Currently, DSRA is maintained at Rs.10 cr as on Oct 31, 2019.

As per the escrow mechanism, the lessee would directly deposit the lease rentals in the bank on monthly basis based on the pay-in dates as per the lease agreements. As per the waterfall mechanism, rent receivables shall first be utilized for payment

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

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 lock-in period expired for majority of the leased area

The LRD term loan being rated carries tenor of 15 years (till FY35) as against the remaining unexpired lease term of upto 5 years (which expires in FY23-24). Further, the lock-in period has also expired for tenants occupying about 60% of the leased area as of Dec 15, 2019.

Therefore, timely tie-up/ renewal of lease agreements at competitive rates with new/ existing tenants shall remain crucial for meeting its debt servicing obligations.

Significant exposure to group entities

There is significant exposure to group entities as the company has given loans & advances of ~Rs.213 cr as on March 31, 2019. Out of the same, Rs.174 cr has been advanced to ASF Insignia SEZ Pvt Ltd while Rs.30 cr has been advanced to Black Canyon SEZ Pvt Ltd. Further, significant amount of investments of Rs.148 cr has been made by KC SEZ in ASF Insignia SEZ Pvt Ltd.

Low coverage ratio

Debt coverage indicators are expected to remain moderate over the projected period due to limited cushion between lease rentals and debt repayment obligations. 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 may further have a bearing on the future rent inflows.

Liquidity: Adequate

The liquidity profile of the company remains adequate, with fully maintained DSRA of Rs.10 crore as on Nov 30, 2019. Further, the monthly rent receipts post deduction of TDS stand at Rs.6.84 cr (for the month of Oct-19) as against monthly debt servicing obligation of Rs.6.40 cr. Free cash balance stood at Rs.0.24 cr as on Mar 31, 2019.

Analytical approach: Standalone.

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

Kings Canyon SEZ Pvt Ltd (KC SEZ), incorporated in 2011, is a special purpose vehicle (SPV) owned by ASF Buildtech Private Limited (ASB; 77% stake) and ASF Insignia SEZ Pvt Ltd (ASF; 23% stake). The company is engaged in the development/ leasing of 3 commercial towers (referred to as building B2; Kings Canyon) located in IT/ ITes sector specific SEZ in GwalPahadi, Gurgaon.

The company belongs to ASF group, which has already delivered over 30 lsf of commercial spaces in areas of Gurgaon & Noida.

Brief Financials (Rs. crore)	FY19 (A)
Total operating income	92
PBILDT	88
PAT	3
Overall gearing (times)	189.59
Interest coverage (times)	1.45

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
Fund-based - LT-Term Loan	-	-	Sept-34	600.00	CARE BBB-; 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	-	-	-	1)Withdrawn (02-Apr-18)	-	1)CARE BBB (SO); Stable (25-Jan-17) 2)CARE BBB (SO) (19-Apr-16)
2.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (19-Apr-16)
3.	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (24-Oct-19) 2)Provisional CARE BBB- (SO); Stable (16-May-19)	-	-	-
4.	Fund-based - LT-Term Loan	LT	600.00	CARE BBB-; 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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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