July 24, 2023

Executive Centre India Private Limited: [ICRA]BBB+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Proposed	50.00	[ICRA]BBB+ (Stable); assigned
Total	**50.00**	

Instrument details are provided in Annexure-I

Rationale

The assigned rating to Executive Centre India Private Limited (ECIPL) takes into account the extensive experience of The Executive Centre Group (TEC/parent) spanning over nearly three decades in office leasing operations (serviced private and shared workspaces) globally as well as its demonstrated track record of operations of 15 years in India. ECIPL's current portfolio comprises leasable area of 0.9 million square feet (sq ft), spread across seven cities, operating at a robust occupancy of 97% as on March 31, 2023 (91% as on March 31, 2022) and a strong tenant profile. The rating takes comfort from the geographically diversified portfolio of the company together with low tenant concentration; the top ten tenants contribute ~18% of the revenue. ECIPL's financial risk profile is strong as reflected by healthy operating margins, low leverage and strong debt coverage metrics. The company reported YoY revenue growth of 38% in FY2023 and Q1 FY2024 to Rs. 401 crore and Rs. 122 crore respectively. ICRA expects the revenues to increase by 8-9% in FY2024 and operating margins at 22% are healthy and likely to sustain in medium term supported by strong occupancy levels and premium positioning driven by superior service, quality of furniture and fit-outs and larger area per workstation. ECIPL does not have any external debt outstanding as on March 31, 2023 and leverage, Total debt (including promoter debt)/NOI, is at 0.4x as of March 2023. While the company has capex plans of Rs. 80-100 crore, which are likely to be part debt-funded, the leverage and debt coverage metrics are expected to remain comfortable in FY2024.

The rating is constrained by the company's moderate scale of operations with 0.9 mn sq ft of leasable area as well as exposure to lease renewal risk. During FY2024, around 67% of leases are getting due for renewal. However, the renewal rates are healthy averaging around 84% in FY2023 which mitigates this risk to some extent. The renewal rates of the future lease expiry will remain a key monitorable. While the company undertakes capex largely backed by demand from existing and prospective tenants, any speculative capex will expose to market risk. The rating is also constrained by unhedged forex exposure on account of payables (management service fees and royalty fees) to the parent company and outstanding foreign currency external commercial borrowings (ECBs) to the tune of Rs. 80 crore as on March 31, 2023. The company is exposed to the cyclicality in the office leasing segment and vulnerability to external factors such as the Covid-19 pandemic.

The Stable outlook reflects ICRA's opinion that the company would benefit from its reputed tenant profile, healthy occupancy, low leverage and strong debt coverage metrics.

Key rating drivers and their description

Credit strengths

Extensive experience of Group in serviced office space globally and demonstrated track record in Indian market - TEC is the third-largest office space provider in Asia with a network spanning across Greater China, Southeast Asia, North Asia, India, Sri Lanka, Australia and the Middle East. TEC started operations in 1994 and at present, it has presence across 15 global markets, 33 cities across 180+ centres around Asia Pacific. In India, TEC started its operations in 2008 and has registered CAGR growth of 21% during five years period ending FY2023. ECIPL's current portfolio comprises of leasable area of 0.9 million square feet (sq ft), spreads across seven cities.

Geographically diversified portfolio with robust occupancy and strong tenant profile – The rating takes comfort from the sizeable and diversified presence with 38 centres spread across seven cities - New Delhi, Gurgaon, Mumbai, Pune, Chennai, Bangalore and Hyderabad. ECIPL's portfolio's occupancy was 97% as on March 31, 2023 (91% as on March 31, 2022) supported by strong tenant profile. The company has well-known names in its client portfolio such as Salesforce, Gartner, Microsoft, and Facebook among others. The top ten tenants contribute ~18% of the revenue indicating in low tenant concentration risks.

Strong financial risk profile – ECIPL's financial risk profile is strong as reflected by healthy operating margins, low leverage and strong debt coverage metrics. The company reported YoY revenue growth of 38% in FY2023 and Q1 FY2024 to Rs. 401 crore and Rs. 122 crore respectively. ICRA expects the revenues to increase by 8-9% in FY2024 and operating margins at 22% are healthy and likely to sustain in medium term supported by strong occupancy levels and premium positioning because of its superior service, quality of furniture and fit-outs and a larger area per workstation. At present, the company has no external debt and there are only ECBs (external commercial borrowings) of ~Rs. 80 crore from the parent company for which repayment along with the interest will be made in FY2026 and FY2027. While the company has capex plans of Rs. 80-100 crore, which are likely to be part debt-funded, the leverage and debt coverage metrics are expected to remain comfortable in FY2024.

Credit challenges

Moderate scale of operations with exposure to lease renewal risk– The portfolio of the company is moderate, when compared to other peers, with 0.9 mn sq ft of leasable area and around 10,000 workstations. During FY2024, around 67% of leases are getting due for renewal exposing the company to renewal risk. However, the renewal rates are healthy averaging around 84% in FY2023 which mitigates this risk to some extent. The renewal rates of the future lease expiry will remain a key monitorable. While the company undertakes capex largely backed by demand from existing and prospective tenants, any speculative capex will expose to market risk.

Exposure to cyclicality in the office leasing segment – TEC is exposed to the cyclicality in the office leasing segment and vulnerability to external factors such as the Covid-19 pandemic.

Exposure to forex risk on account of unhedged payables and ECBs– The company has ECBs of around Rs. 80 crore outstanding as on March 31, 2023 from the parent company which are due to be repaid in FY2026- FY2027. Additionally, the company pays management and royalty fees to the parent company. These forex payables and debt are unhedged which exposes the company to forex fluctuation risk.

Liquidity position: Adequate

The company's liquidity is adequate with cash and bank balance of Rs. 61 crore as on April 30, 2023. The company does not have any outstanding external debt as on March 31, 2023 and is expected to generate healthy cashflows from operations. The company plans to incur capex of Rs. 80-100 crore every year which is planned to be funded largely by internal accruals and debt.

Rating sensitivities

Positive factors – The rating could be upgraded if the company is able to increase its scale of operations while maintaining healthy occupancy, operating profitability and comfortable debt coverage metrics on a sustained basis.

Negative factors – The rating could be downgraded if there is a material decline in occupancy and/or large debt-funded expansion resulting in weakening of debt coverage metrics and liquidity position on a sustained basis. Specific credit metric for a rating downgrade would be 5-year average DSCR below 1.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Debt Backed by Lease Rentals (LRD – Lease Rental Discounting Loans) Rating Methodology – Real Estate
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Executive Centre India Private Limited (ECIPL), incorporated on May 12, 2008, is a subsidiary of The Executive Centre Group which is headquartered in Hong Kong. The company offers serviced offices, virtual offices, meeting facilities, video conferencing and a range of business concierge services for multinational and local clients. At present, ECIPL has 38 live centres across seven cities - New Delhi, Gurgaon, Mumbai, Pune, Chennai, Bangalore and Hyderabad. ECIPL's current portfolio comprises of leasable area of 0.9 million square feet (sq ft) with 10,000 workstations, spread across seven cities.

Key financial indicators

ECIPL (Standalone)	FY2021	FY2022	9M FY2023*
Operating income	271.4	289.8	286.2
PAT	20.1	10.0	15.5
OPBDIT/OI	24.3%	23.0%	21.5%
PAT/OI	7.4%	3.4%	5.4%
Total outside liabilities/Tangible net worth (times)	2.0	1.9	2.0
Total debt/OPBDIT (times)	0.6	1.1	1.0
Interest coverage (times)	14.9	20.1	23.1

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; * Provisional, all ratios as per ICRA calculations*
Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					July 24, 2023	-	-	-
1	**Fund based-Proposed**	Long term	50.00	nil	**[ICRA]BBB+ (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Proposed	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Proposed	NA	NA	NA	50.00	[ICRA]BBB+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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