August 17, 2020

SS Developers: Rating reaffirmed; removed from Issuer Not Cooperating Category

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loan	35.50	35.50	[ICRA]B+(Stable); reaffirmed; removed from Issuer Not Cooperating Category
Total	**35.50**	**35.50**	

Rationale

The rating reaffirmation takes into account the long-term lease agreements of the firm SS Developers (SSD) with its clients and sufficient lock-in period with steady escalations every year. The rating captures the presence of an escrow mechanism for all the loans, whereby rentals are directly deposited in the escrow account and utilized first for debt-servicing before release of any surplus cashflows towards other funding requirements. The rating also factors in presence of long-term lease tenure with reputed clients thereby mitigating the counterparty credit risk to an extent.

The rating is, however, constrained by relatively small scale of operations which may restrict financial and pricing flexibility to an extent. The firm is exposed to client concentration risk on account of single tenant for each of the warehouses and the absence of debt service reserve account (DSRA) which may affect the liquidity position in case of delay in the payment of lease rentals by the tenants. This is crucial in the backdrop of Covid pandemic which may affect the timeliness of rentals. Being a partnership firm, ICRA notes the exposure to risks such as withdrawal of capital and dissolution of the firm.

Key rating drivers

Credit strengths

Long term lease agreements with clients - The lease agreements for all the three warehouses is ten years. SSD also has an automatic lease renewal clause in the agreement for five years unless the tenant wishes to vacate the premises. The rental escalations range between 5% to 10% per annum, however the firm's ability to implement the same in current scenario remains to be seen.

Presence of escrow mechanism which reduces fungibility risk- As per the terms of loan sanction, there is an escrow account mechanism in place as per which all the rent receivables are to be directly deposited into an escrow account and utilized first for debt servicing before release of any surplus cash flows. The presence of an escrow mechanism provides comfort in the form restricting cash flow fungibility.

Warehouses occupied by reputed companies which reduces the counterparty credit risk- One warehouse is occupied by Puma Sports India Private Limited (PSIPL) (warehouse-1) and the other two warehouses are occupied by DHL Supply Chain India Private Limited (DSCIPL) (warehouse 2, 3 and 4). Both the companies are reputed and have an established brand presence.

Credit challenges

Small scale of operations- The firm's scale of operations are relatively modest thereby restricting its operational and financial flexibility to an extent. Being a partnership firm, it is exposed to capital withdrawal and dissolution risks. ICRA notes that the firm has also earned revenues through real estate operations however limited clarity exists on the same at present.

Concentration risk on account of single tenant for each of the warehouses- The firm faces high concentration risk as there are only two clients which exposes SSD to market risks in case any of these clients vacate the premises. Further, expiry of majority of the lock in FY2020 and current fiscal also adds to vacancy risks.

Absence of debt service reserve account (DSRA)- The firm does not maintain a debt service reserve account which makes SSD's debt-servicing ability vulnerable to any delay in the payment of lease rentals by the tenants. The same has been witnessed in the current fiscal.

Liquidity Position: Stretched

The firm's rental collections have declined due to Covid outbreak with tenants paying only around of 50% of the rentals from April 2020. The liquidity position is **stretched** any further decline in rental collections may lead to delay in debt servicing. However, the firm has availed moratorium for principal repayment for all its term loans and is paying interest for all its term loans under RBI's covid-19 package which supports the liquidity position to an extent.

Rating Sensitivities

Positive Triggers- The rating could be upgraded if the firm receives timely rentals from its tenants along with steady escalations leading to improved liquidity position.

Negative Triggers- The rating could be downgraded if there is any delay in rental payments from its customers or decline in occupancy such that the cumulative cash flow cover declines. Escrow structure for the rentals and cash flow waterfall remains critical for the debt servicing and any non-adherence of the structure will result in a rating downgrade.

About the company

SS Developers was established in the year 2011 by Mr. Ramalinga Reddy and his wife Ms. Chamundeshwari along with Mr. Gopal Reddy. Mr. Ramalinga Reddy has been a seven-time member of the legislative assembly (MLA) from Bangalore and was appointed as a cabinet minister in 2013. The partners have leased out the land to the firm which has developed it and constructed four warehouses and leased it out to PUMA Sports India Private Ltd and DHL Supply Chain India Private Ltd. The warehouses are located in Mayasandra Village in Anekal.

In FY2019, the company reported a net profit of Rs. 9.4 crore on an operating income of Rs. 19.2 crore compared to a net profit of Rs. 7.9 crore on an operating income of Rs. 15.9 crore in the previous year. In FY2020, the firm is estimated to have received Rs 14 crore as annual rentals.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	15.9	19.2
PAT (Rs. crore)	7.9	9.4
OPBDIT/ OI (%)	94.7%	95.9%
RoCE (%)	23.8%	26.1%
Total Outside Liabilities/ Tangible Net Worth (times)	2.7	4.3
Total Debt/ OPBDIT (times)	2.6	2.4
Interest coverage (times)	6.2	6.1
DSCR	4.5	5.3

Source: SSD

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on 31st Mar, 2019 (Rs Crore)	Date & Rating 17-Aug-2020	Date & Rating in FY2020 19-Nov-2019	Date & Rating in FY2019 16-Jul-2018	25-May-2018	Date & Rating in FY2018 -
1	Term Loan	Long-term	35.50	32.20	[ICRA]B+ (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB (SO) (Stable); ISSUER NOT COOPERATING	[ICRA]BB (SO) (Stable)	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Feb-2018	NA	Aug-2024	35.50	[ICRA]B+ (Stable)

Source: SSD

ANALYST CONTACTS

Ravichandran K
+91 44 4596 4301
ravichandran@icraindia.com

Srinivasan R
+91 44 4596 4315
r.srinivasan@icraindia.com

Sheetal Sharad
+91 124 4545374
sheetal.sharad@icraindia.com

Pavan Ramesh
+91 80 4922 5572
pavan.ramesh@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999