

March 26, 2024

Stumpp Schuele & Somappa Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loans	75.00	199.00	[ICRA]BBB- (Stable); reaffirmed/assigned for enhanced amount
Total	75.00	199.00	

*Instrument details are provided in Annexure-I

Rationale

The rating action on the bank lines of Stumpp Schuele & Somappa Private Limited (3SPL/the company) considers ICRA's expectation of a sustained financial performance in the near to medium term, supported by the favourable location of its assets, healthy leasing status and reputed client profile. The company has various land parcels and buildings in Bengaluru and Chennai, in preferred micro-markets for IT/ITeS firms, auto ancillary establishments, warehousing establishments, etc. 3SPL has leased out its properties to subsidiaries/Group companies and external parties and received rentals of Rs. 16.5 crore in FY2023 and Rs. 15.9 crore in 9M FY2024. Full occupancy levels and steady annual rental inflows with escalation clause, provide comfort on cashflows. Also, given the healthy credit profile of the tenants and the common promoters with 3SPL (for most clients), the vacancy risk and the counterparty risk associated with these leases are low, despite high tenant concentration. Further, while the company has healthy cash flows/coverage metrics with estimated 5-year average DSCR of 1.18 times and does not require financial support, ICRA expects the promoters to extend adequate and timely financial support, if required, for meeting 3SPL's operating and financial commitments. 3SPL has adequate liquidity on the back of stable and predictable monthly rental collections. Its repayment obligations are expected to be adequately met by the rental income from its leased properties. The liquidity is further supported by the DSRA of Rs. 6.12 crore amounting to three months of EMIs, maintained in the form of a fixed deposit.

3SPL had Rs. 190.0 crore of corporate guarantees as contingent and commitment liabilities on its books as on March 31, 2023. These corporate guarantees were issued in favour of different banks against loans availed by its subsidiaries. While invocation of the corporate guarantees could impact 3SPL's credit profile, ICRA draws comfort from ring-fencing of cash flows for servicing the Lease Rental Discounting (LRD) facilities, healthy credit profile of the counterparties and strong promoter background. Also, 3SPL's debt service coverage ratio, profitability and cash flow are exposed to interest rate risk, given the floating nature of interest rates and relatively high debt levels of Rs. 203.0 crore as on December 31, 2023.

The stable outlook on the rating reflects ICRA's expectation that the company will be able to sustain its credit profile and debt metrics, supported by its cash accruals, adequate liquidity position, and timely and adequate financial support from promoters.

Key rating drivers and their description

Credit strengths

Strong promoter background – The promoters have presence in multiple businesses ranging from auto ancillary to real estate, in addition to several land parcels in Bengaluru and Chennai. 3SPL derives a large part of its revenues from lease rentals received from its subsidiaries and Group companies. While the company has healthy cash flows and does not require financial

support, ICRA expects the promoters to extend adequate and timely financial support, if required, for meeting 3SPL's operating and financial commitments.

Healthy leasing status and reputed tenant profile – The company has various land parcels and buildings in Bengaluru and Chennai, which have been leased out to subsidiaries/Group companies and external parties. 3SPL received rentals of Rs. 16.5 crore in FY2023 and Rs. 15.9 crore in 9M FY2024. The steady annual rental inflows from its well-located factory spaces and warehouses in Bengaluru and Chennai, leased out on a long-term agreement with an escalation clause on a yearly basis, provide comfort. Also, given the healthy credit profile of the tenants and the common promoters with 3SPL (for most clients), the vacancy risk and the counterparty risk associated with these leases are low.

Favourable location of assets – The favourable location of 3SPL's assets in Bengaluru and Chennai with good accessibility and proximity to commercial and residential neighbourhoods provides comfort. The locations are in preferred micro-market for IT/ITeS firms, auto ancillary establishments, warehousing establishments, etc. The location has seen a lot of leasing interest from several companies in recent years, which has resulted in healthy demand for properties.

Credit challenges

High tenant concentration – 3SPL generates more than 70% of its rental income from its subsidiaries and Group companies, leading to concentration of revenues from a few parties and associated risks. However, given the healthy credit profile of these tenants and their common promoters with 3SPL, the vacancy risk and counterparty risk associated with the leases are low. The promoters are also committed to extend adequate and timely financial support, if required, for meeting 3SPL's operating and financial commitments.

Risk arising out of corporate guarantees issued for subsidiaries and Group companies – 3SPL had Rs. 190.0 crore of corporate guarantees as contingent and commitment liabilities on its books as on March 31, 2023. These corporate guarantees were issued in favour of different banks against loans availed by its subsidiaries. While invocation of the corporate guarantees could impact 3SPL's credit profile, ICRA draws comfort from ring-fencing of cash flows for servicing the LRD facilities and healthy credit profile of the counterparties. The promoters are also committed to extend adequate and timely financial support, if required, for meeting 3SPL's operating and financial commitments.

Vulnerability of coverage indicators to changes in interest rate – 3SPL's debt service coverage ratio, profitability and cash flow are exposed to interest rate risk, given the floating nature of interest rates. Any steep increase in the interest rates can impact the company's debt coverage metrics, going forward. However, presence of DSRA of Rs. 6.12 crore equivalent to 3 months debt servicing obligations provides comfort.

Liquidity position: Adequate

The company has 100% occupancy levels and generates stable rental income from the same. The liquidity profile is expected to remain adequate on the back of stable and predictable monthly rental collections. As it is a holding entity, 3SPL does not have any major operational expenses. Its repayment obligations are expected to be adequately met by the rental income from its leased properties. The liquidity is further supported by the DSRA of Rs. 6.12 crore amounting to three months of EMIs, maintained in the form of a fixed deposit.

Rating sensitivities

Positive factors – Any upgrade in the rating would be linked to improvement in the company's coverage indicators.

Negative factors – Negative pressure on the rating could arise if any delay in timely rental receipts or any increase in leverage levels leading to five-year average DSCR remaining less than 1.1 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD)
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone profile of the rated entity.

About the company

With presence over several decades, Stumpp, Schuele & Somappa Private Limited has been primarily engaged in real estate development, including construction, property leasing, sale of residential apartments, etc. 3SPL has various land parcels and buildings, which have been leased out primarily to subsidiaries/group companies. This forms the prime source of income for the company currently. The promoters have a presence in multiple businesses including auto ancillaries through Stumpp Schuele & Somappa Springs Private Limited (4SPL, rated [ICRA]BBB (Stable)/[ICRA]A3+), Stumpp Schuele and Somappa Auto Suspension Systems Private Limited (5SPL, rated [ICRA]BBB (Stable)/[ICRA]A3+) and MGM Springs Private Limited (MGMSPL, rated [ICRA]BBB (Stable)/[ICRA]A3+).

Key financial indicators (audited)

3SPL Standalone	FY2022	FY2023
Operating income	20.3	19.3
PAT	-2.1	-5.5
OPBDIT/OI	58.8%	49.8%
PAT/OI	-10.3%	-28.3%
Total outside liabilities/Tangible net worth (times)	-52.4	-17.5
Total debt/OPBDIT (times)	7.7	11.4
Interest coverage (times)	1.2	0.8

Source: Company, ICRA Research; Note: Amount in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of December 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 26, 2024	Dec 29, 2022	Sep 14, 2021	Mar 23, 2020
1	Fund-based-Term Loans	199.00	191.6	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB (Stable) ISSUER NOT COOPERATING; Withdrawn
2	Fund-based-CC	-	--				[ICRA]BB (Stable) ISSUER NOT COOPERATING; Withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple

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	Term Loans	Aug 2022	~8.7%	Jul 2035	199.00	[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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