

February 20, 2017

ETA Constructions (India) Limited

Instruments*	Amount	Rating Action
	In Rs crore	February 2017
Term loan	125.0	Upgraded from [ICRA]BB+ (stable) to [ICRA]BBB- (stable)
Overdraft	5.0	Upgraded from [ICRA]BB+ (stable) to [ICRA]BBB- (stable)
Non-fund based	5.0	Upgraded from [ICRA]BB+ (stable) to [ICRA]BBB- (stable)

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has upgraded the long term rating assigned to the Rs 125.0 crore term loan, Rs. 5.0 crore overdraft limit and Rs. 5.0 crore non-fund based limit of ETA Constructions (India) Limited (“ETACIL”/”the company”) from [ICRA]BB+ (pronounced ICRA double B plus) to [ICRA]BBB- (pronounced ICRA triple B minus). The outlook on the long term rating is stable.

Rationale

For arriving at the rating, ICRA has taken into account the business and financial profile of ETACIL, ETA Karnataka Estates Limited (ETAKEL) and ETA Star Infopark (ESI). This is because ETACIL, ETAKEL and ESI are the beneficiaries of a joint development agreement project which is the major source of cash flows for these entities and there are significant financial transactions between these entities. Moreover, ETAKEL has given a corporate guarantee for the rated loans of ETACIL. ETACIL is the largest partner in ESI and together with ETAKEL holds 97% interest in ESI.

The upgrade in the rating takes into account the improved cash flows and liquidity position of the company over FY2016 and FY2017, supported by monetization of land parcels and healthy collections from the Park West residential project. The ETA Group, as land owners, had entered into a joint development agreement (JDA) with Relationship Properties Private Limited (RPPL, a Shapoorji Pallonji group company) for the development of the Park West project. ETA Group is expected to receive revenue share (net of refundable deposit and TDS) of over Rs. 850 crore over the next six years from this project. ETACIL has economic interest in the JDA cash flow directly as well as through ESI, a partnership firm, where it is the largest partner. ETACIL has in the past also benefited from the funding support received from ETAKEL and ESI which also have economic interest in the cash flows from RPPL project; such support can be expected going forward also, if required. The cash flows from the land monetization and JDA project have enabled ETACIL to meet the debt repayment obligations on the commercial mall project (“ETA Mall”) in a timely manner, notwithstanding the shortfall in escrowed rentals for the term loan. The rating also draws comfort from the the limited utilization of the fund based working capital limits and creation of a debt service reserve account covering two months’ debt obligations that provides liquidity cushion in case of any short term cash flow mismatches.

The rating is, however, constrained by the market risks associated with the ETA Mall project, with only 47% of the leasable area yielding rents currently; there is limited visibility on tie up of leasing for the remaining area. Consequently, the lease rental income from the existing tenants is inadequate to service the construction debt availed for the project and ETACIL is dependent on cash flows from the Park West project to meet repayments in a timely manner. The rating considers the market and execution risks associated with the ongoing Park West project, though the risks are mitigated to some extent by the

profile of the developer in the JDA (Shapoorji Pallonji group) and the adequate response to the first two phases of the project. The rating also factors in the group's plans to invest the surplus funds generated from the land sale and JDA project into fresh land investments. The rating is also constrained by the risks of ETACIL extending any significant funding support to group entities, some of whom have relatively weak financial profiles. Nonetheless, the management has committed that such land investments and loans to group entities would only be done out of the surplus cash flows after meeting the operational and financing cash flow requirements in ETACIL, ETAKEL and ESI.

Key Rating Drivers

Credit Strengths

- Improved cash flow and liquidity position of the company supported by healthy cash flows from the Park West residential project
- Monetization of certain land parcels and a commercial property has further supported the liquidity position of the company during FY2016 and YTD FY2017
- Limited utilization of the fund based working capital limits and creation of a debt service reserve account covering two months' debt obligations provides liquidity cushion
- Demonstrated financial support from group entities in the past two years has enabled it to fund the cost over runs on the commercial mall project and meet debt repayments

Credit Concerns

- Mall project exposed to significant marketing risk as tenants for around 53% of leasable area are yet to be identified
- ETACIL is exposed to volatility in monthly cash flows from JDA agreement as these are subject to execution and sales achieved by the developer
- ETACIL and its group entities could incur significant investments towards land purchase in the near to medium term; however, this investment will be funded through excess cash generated at the group level
- Risks of ETACIL extending any significant funding support to group entities, some of whom have relatively weak financial profiles

Description of Key Rating Drivers Highlighted Above

ETACIL derives income primarily from the leasing of a commercial mall (ETA Namma Mall) and as land owner in a residential real estate project developed through a JDA. The ETA group has entered into a JDA with Relationship Properties Private Limited (RPPL) for the development of the project "Parkwest" in Binnypet, Bangalore. RPPL has achieved good sales progress, with Phase 1 almost entirely sold out and 42% of Phase 2 sold till Dec 2016, which has resulted in healthy cash inflows for the ETA Group. The Group is expected to receive net revenue share (net of refundable deposit and TDS) of over Rs. 850 crore over the next six years from this project which is expected to be largely invested in the future growth ventures of the group, after meeting the operational and financing cash flow requirements in ETACIL.

In ETA Namma Mall, the progress in terms of tying up the retail lessees has not seen any significant progress and the leasing interest is expected to improve only after the occupancy levels in the adjacent Park West residential project improves. Hence occupancy level could remain at less than 50% in the near term. As a result, cash coverage from mall lease rentals alone is not sufficient to meet debt obligations on the loan taken for funding mall construction; however, the shortfall will be met through cash flows from RPPL project.



ETACIL and ETA Karnataka Estates Limited (ETAKEL, a group entity) have sold various land parcels and a commercial property during FY2016 and YTD FY2017. These transactions have resulted in healthy cash balance of Rs. 85 crore as on Nov 30, 2016.

ETA StarInfoPark, partnership firm through which ETACIL mainly derives its share of cash flows from the JDA project. Given the large scale of cash inflows expected from the JDA project, ESI has plans to invest the surplus cash flows in acquisition of land parcels. This might result in significant cash outflow, however, the investment will be funded through excess cash generated at the group level and is not expected to impact the operational performance and the debt repayments of the group entities.

Analytical approach

For arriving at the rating, ICRA has taken into account the business and financial profile of ETACIL, ETA Karnataka Estates Limited (ETAKEL) and ETA Star Infopark (ESI). This is because ETACIL, ETAKEL and ESI are the beneficiaries of a joint development agreement project which is the major source of cash flows for these entities and there are significant financial transactions between these entities. Moreover, ETAKEL has given a corporate guarantee for the rated loans of ETACIL. ETACIL is the largest partner in ESI and together with ETAKEL holds 97% interest in ESI.

Links to applicable Criteria

[Corporate Credit Ratings: A Note on Methodology](#)
[ICRA Rating Methodology: Real Estate Entities](#)

About the Company

ETACIL was incorporated in the year 1995 as a private limited company and in February 2006 converted itself to a public limited company. ETACIL belongs to the ETA ASCON Group of Dubai, which is jointly owned by families of Mr. Abdulla Al Ghurair and Mr. B.S. Abdul Rahman. ETACIL was initially set up to take up civil contracting work and has executed several major contracts in the southern cities of Chennai and Bangalore. In the year 2005, the company diversified its operations into the field of real estate development by launching its first residential project 'Binny Crescent' in Bangalore.

Currently, ETACIL has completed one commercial shopping mall with a total leasable area of 0.41 million sft of which 47% of the area has been leased till date. ETACIL, along with certain group entities, has also entered into a JDA with Relationship Properties Private Limited (RPPL) for the development of the project "Parkwest" in Binnypet, Bangalore. This is a residential project being developed on 47 acres of land with ETA group receiving 31% of revenues.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

Sl. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month - year & rating	Month - year & Rating in FY2016		Month - year & Rating in FY2015	Month - year & Rating in FY2014
				Feb 2017	Nov 2015	Sep 2015	-	Dec 2013
1	Bank lines	Long term	135	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	[ICRA]BB (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
Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term loan 1	July 2011	-	FY2020	100.00	[ICRA]BBB-(Stable)
Term loan 2	March 2014	-	FY2021	25.00	[ICRA]BBB-(Stable)
Fund based - overdraft	-	-	-	5.00	[ICRA]BBB-(Stable)
Non-fund based	-	-	-	5.00	[ICRA]BBB-(Stable)

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