

March 16, 2018

## ETA Constructions (India) Limited

### Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	125.0	125.0	[ICRA]BBB- (Stable) reaffirmed
Overdraft	5.0	5.0	[ICRA]BBB- (Stable) reaffirmed
Non-fund based	5.0	5.0	[ICRA]BBB- (Stable) reaffirmed
<b>Total</b>	<b>135.0</b>	<b>135.0</b>	

\*instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) 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 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 (JDA) project which is the major source of cash flows for these entities and there are significant financial transactions among these entities. Moreover, ETAKEL has given a corporate guarantee for the rated loans of ETACIL, which is the largest partner in ESI and together with ETAKEL holds 97% interest in ESI.

The rating reaffirmation takes into account the stable cash flows and adequate liquidity position of the company, supported by monetisation of land parcels and healthy collections from the Park West residential project. The ETA Group, as land owners, had entered into a JDA with Relationship Properties Private Limited (RPPL, a Shapoorji Pallonji Group company) for the development of the Park West project. The ETA Group is expected to receive revenue share (net of refundable deposit and TDS) of over Rs. 750 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), wherein it is the largest partner. In the past, ETACIL also benefited from the funding support received from ETAKEL and ESI which also have economic interest in the cash flows from the RPPL project. The company is expected to continue receiving support going forward also, if required. The cash flows from the land monetisation 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 moderate utilisation of the fund-based working-capital limits and creation of a debt service reserve account (DSRA) covering debt obligations for two months that provides liquidity cushion in case of any short-term cash-flow mismatches.

The rating, however, is constrained by the market risks associated with the ETA Mall project, wherein only 59% of the leasable area is yielding rents at present. 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 considers the fact that the surplus funds generated from the land sale and JDA project are being utilised for payment towards purchase of a

land parcel in Ambattur, Chennai, with around Rs. 190 crore yet to be paid as on December 2017. The rating is also constrained by the risks of ETACIL extending any significant funding support to Group entities, some of which have relatively weak financial profiles. Nonetheless, the management has committed that cash outflow towards land investments and loans to Group entities would only be out of the surplus cash flows after meeting the operational and financing cash-flow requirements of ETACIL, ETAKEL and ESI.

### **Outlook: Stable**

ICRA believes that the stable cash flows from the Park West project will support ETACIL's financial risk profile in the near-to-medium term. The outlook may be revised to Positive in case of better-than-expected sales performance in the Park West project or improvement in occupancy in the mall project, resulting in improved cash flows. The outlook may be revised to Negative in case of weaker-than-expected sales performance in the Park West project, or higher-than-expected cash outflow from ETACIL towards land investments or funding support to Group entities.

### **Key rating drivers**

#### **Credit Strengths**

- **Stable cash flow and adequate liquidity position supported by cash flows from Park West residential project:** The ETA Group had entered into a JDA with RPPL for the development of the Parkwest project in Binnypet, Bangalore. RPPL has achieved good sales progress with Phase 1 almost entirely sold out and 63% of Phase 2-A sold till December 2017, leading to healthy cash inflows for the ETA Group. The Group is expected to receive net revenue share (net of refundable deposit and TDS) of more than Rs. 750 crore over the next six years from this project which is expected to be primarily invested in the future growth ventures of the Group, after meeting the operational and financing cash-flow requirements of ETACIL.
- **Monetisation of certain land parcels further supports liquidity position:** ETACIL and ETAKEL have sold various land parcels and a commercial property in FY2016 and FY2017. These transactions resulted in significant cash inflows for the entities over the last three years, in turn supporting the liquidity position.
- **Moderate utilisation of fund-based working capital limits and creation of DSRA provides liquidity cushion:** The company has overdraft facility of Rs. 5 crore, the utilisation of which remained low with average utilisation of 54% of the sanctioned limit during January–December 2017. The company also maintained DSRA covering debt obligations for two months. The availability of unused limit in the overdraft (OD) facility and creation of DSRA provide liquidity cushion in case of any delays in receipt of rentals from the tenants or slow sales in the Park West project.
- **Demonstrated financial support from Group entities in recent years:** ETACIL is entitled to a 16.4% share of the gross revenue from the Park West project based on its partnership interest in ETA Star Infopark and JDA with ETAKEL. Nonetheless, ETACIL has received cash flows from this JDA project over and beyond its share, which is reflected on its balance sheet as advances from Group entities. This financial support from Group entities has enabled ETACIL to fund the cost overruns in the mall project and also meet debt-repayment obligations in a timely manner, given that the lease rental income is inadequate for debt servicing on a standalone basis.

### Credit Challenges

- **Mall project remains exposed to significant marketing risk:** In ETA 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. As on December 2017, tenants for around 41% of the leasable area are yet to be identified. Due to the low occupancy and relatively short tenor of the loan, mall lease rentals are not sufficient to meet debt obligations on the term loan. However, the shortfall will be met through cash flows from other projects.
- **ETACIL remains exposed to volatility in monthly cash flows from JDA agreement as these are subject to execution and sales achieved by the developer:** The sales in the Park West projects have remained moderate in the recent quarters on account of the challenging market conditions in the residential real-estate segment and uncertainty over implementation of regulatory changes. Consequently, the cash flows for ETA Group from the project have also moderated in the last 12 months. Hence, sales performance in Park West project will be a key rating monitorable going forward.
- **ETACIL and its group entities could incur significant investments towards land purchase in the near-to-medium term:** ESI has executed an Agreement to Sale for purchase of land parcel in Ambattur, Chennai covering an area of 16.8 acres at a total cost of Rs. 280 crore. Till December 2017, ESI has paid Rs. 87 crore towards the land purchase with the remaining payment to be made in the next two to three years. Given the large scale of cash inflows expected from the JDA project, ETACIL and its Group companies may also invest the surplus cash flows to acquire additional land parcels.
- **Risks of ETACIL extending any significant funding support to Group entities:** The extent of funding support to the Group companies, some of which have relatively weak financial profiles, will be a key rating monitorable going forward.

**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 Rating Methodology](#)

[Rating Methodology for Real Estate Entities](#)

### About the company

ETACIL was incorporated in 1995 as a private limited company and in February 2006 was converted into a public limited company. ETACIL belongs to the ETA ASCON Group of Dubai, which is jointly owned by the families of Mr. Abdulla Al Ghurair and Mr. B.S. Abdul Rahman. The company was initially set up to undertake civil contracting work and has executed several major contracts in the southern cities of Chennai and Bangalore. In 2005, the company diversified its operations into the field of real-estate development by launching its first residential project, Binny Crescent, in Bangalore. At present, ETACIL has completed one commercial shopping mall with a total leasable area of 0.41 million sq ft, of which 59% of the area has been leased till date. ETACIL, along with certain Group entities, has also entered into a JDA with RPPL for the development of the Parkwest project in Binnypet, Bangalore. This is a residential project being developed on 47 acres of land with the ETA Group receiving 31% of the revenues.

**Key financial indicators (audited)**

	FY2016	FY2017
Operating income (Rs. crore)	77.1	149.2
PAT (Rs. crore)	16.8	58.2
OPBDITA/OI (%)	39.0%	54.0%
RoCE (%)	16.6%	28.9%
Total Debt/TNW (times)	1.1	0.6
Total Debt/OPBDIT (times)	6.0	1.7
Interest Coverage (times)	1.1	3.8
NWC/OI (%)	34%	3%

*Source: company, ICRA; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortization; PAT: Profit after Tax; NWC: Net Working Capital; TNW: Tangible Net Worth; RoCE; Return on Capital Employed; OI: Operating Income*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years**
**Table**

Sl. No.	Name of Instrument	Current Rating				Chronology of Rating History for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date and rating	Date & rating in FY2017	Date & rating in FY2016		Date & rating in FY2015
					March 2018	February 2017	November 2015	September 2015	-
1	Term loan	Long Term	125.0	66.7 <sup>^</sup>	[ICRA] BBB-(Stable)	[ICRA] BBB-(Stable)	[ICRA] BB+(Stable)	[ICRA] BB+(Stable)	-
2	Overdraft	Long Term	5.0	-	[ICRA] BBB-(Stable)	[ICRA] BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA] BB+(Stable)	-
3	Bank Guarantee	Long Term	5.0	-	[ICRA] BBB-(Stable)	[ICRA] BBB-(Stable)	[ICRA] BB+(Stable)	[ICRA] BB+(Stable)	-

<sup>^</sup>As on December 31, 2017

**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](http://www.icra.in)

**Annexure-1  
Instrument Details**

<b>Name of the instrument</b>	<b>ISIN</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Term loan	-	July 30, 2011	11.5%	FY2021	125.0	[ICRA]BBB-(Stable)
Overdraft	-	-	-	-	5.0	[ICRA]BBB-(Stable)
Bank Guarantee	-	-	-	-	5.0	[ICRA]BBB-(Stable)
<b>Total</b>					<b>135.0</b>	

Source: ETACIL; ^As on December 31, 2017



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### 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.

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