

UR Realtors Private Limited

August 02, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Term Loan (Loan against rent receivables)	8.00	8.00	[ICRA]BBB (Stable); downgraded from [ICRA]BBB+(Stable)
Unallocated	2.00	2.00	[ICRA]BBB (Stable); downgraded from [ICRA]BBB+ (Stable)
Total	10.00	10.00	

Rating action

ICRA has downgraded the long-term rating assigned to the Rs. 8.0-crore¹ term loan (loan against rent receivables) facility, and Rs. 2.0-crore unallocated limit of UR Realtors Private Limited (URR)² to [ICRA]BBB (pronounced ICRA triple B) from [ICRA]BBB+ (pronounced ICRA triple B plus). The outlook on the long-term rating is Stable.

Rationale

The downward revision in the rating takes into account decline in URR's operating profitability to 62.28% in FY2018 from 70.36% in FY2017 which coupled with increase in monthly debt service obligation led to a decline in the interest cover to 1.90 times in FY2018 from 2.08 times in FY2017. ICRA also takes into account absence of a debt-service reserve account (DSRA) arrangement which may lead to cash flow mismatch if there is any delay by the tenant in remitting rentals in a timely manner. Nonetheless, till date URR has received the rentals in a timely manner from its tenant in the escrow account maintained for this purpose. At present, URR owns a single 44,918-sq. ft. commercial property in Bangalore which is leased to a single tenant, exposing the company to significant asset and client-concentration risks. Nonetheless, reputed profile of the tenant and investments made by the tenants towards fit-outs, along with proven track record of renewal of the agreement in the past, mitigate counterparty risk to a great extent. The company's cash balance remained low as a result of consistent increase in investments to group entity over the years. The cash balance declined further to Rs. 0.06 crore as on March 31, 2018 from Rs. 0.12 crore in the previous year, implying reduced financial flexibility. The ratings continue to draw comfort from the experience of the Almal Group in the real-estate space.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that the company's overall cash inflows would provide sufficient cover over its debt service obligations, going forward. The outlook may be revised to Positive if there is an improvement in the profitability margins and coverage ratios. The outlook may be revised to Negative if there is a significant deterioration in cash accruals of the company.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Part of the Almal Group which has an established presence in the real-estate space – URR is a part of the Kolkata-based Almal Group, which has presence across various segments such as real-estate development, manufacturing, facility management and agency representation. The group has developed various commercial and residential properties, both in its individual capacity and in partnership with other real-estate developers.

Timely lease rental collection till date – URR has obtained a loan which is backed by rentals. The tenant remits monthly lease rentals in an escrow account from where the lender recovers its EMIs. The company has been able to collect its lease rentals in a timely manner in the past.

Credit challenges

Decline in operating profitability in FY2018 and increased monthly debt service obligation – The operating margin of URR declined in FY2018 to 62.28% from 70.36% in FY2017 owing to increase in rental expenses for its Kolkata office as well as onetime expense of Rs. 0.07 crore incurred for repair work at its property in Bangalore. This coupled with increase in the equated monthly instalment from Rs. 0.121 crore to Rs. 0.164 crore led to a decline in the interest cover to 1.90 times in FY2018 from 2.08 times in FY2017.

Investment in a single property leased to a single tenant exposes the company to asset and client-concentration risks – URR has leased out its single property located in Bannerghatta area in Bangalore to only one tenant, thereby, exposing URR to high asset and client concentration risks. Nonetheless, reputed client profile with proven track record of renewal of lease agreements provides comfort against market risk.

Absence of debt service reserve account (DSRA)- Absence of any DSRA to absorb any short-term liquidity mismatch makes timely collection of rentals crucial for URR. Nonetheless, bank guarantee provided by the client provides some comfort in the event of delay in receipt of rentals.

Significant investments in group entities relative to the tangible net worth of URR – The company has made significant investments in its group companies compared to its tangible net-worth. The returns from such investments are sub-optimal, thereby, leading to suppressed business returns. The company's cash balance remained low as a result of consistent increase in investments to group entity over the years. The cash balance declined further to Rs. 0.06 crore as on March 31, 2018 from Rs. 0.12 crore in the previous year, implying reduced financial flexibility.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Debt Backed by Lease Rentals](#)

About the company:

UR Realtors Private Limited (URR) was incorporated in 1999 by Mr. Suresh Almal and Mrs. Ritu Almal. The company is involved in leasing of commercial property and has also invested in shares of group companies. As on date, URR owns a single floor of 44,918 sq. ft. in Divyasree Towers in Bangalore which has been given on lease to Convergys India Services Private Limited. The commercial building is located in Bannerghatta Road in Bangalore.

Key financial indicators

	FY2017 (Audited)	FY2018 (provisional)
Operating Income (Rs. crore)	2.77	2.77
PAT (Rs. crore)	1.27	1.16
OPBDIT/ OI (%)	70.36%	62.28%
RoCE (%)		
Total Debt/ TNW (times)	0.89	0.67
Total Debt/ OPBDIT (times)	4.21	4.03
Interest coverage (times)	2.08	1.90

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2019 August-18	Date & Rating in FY2018 Sep-17	Date & Rating in FY2017 Oct-16	Date & Rating in FY2016 Sep-15
1 Fund-based limit – Term Loan (Loan against rent receivables)	Long-term	8.00	6.95 (March 2018)	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2 Unallocated	Long-term	2.00	-	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (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/Commission	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan (Loan against rent receivables)	FY2018	8.50%	FY2023	8.00	[ICRA]BBB (Stable)
NA	Unallocated	-		NA	2.00	[ICRA]BBB (Stable)

Source: UR Realtors Private Limited

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