Candor Kolkata One Hi-Tech Structures Private Limited

December 31, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)[1]	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	2,100.0	2,100.0	[ICRA]A-(SO) (Stable)[2]; provisional rating finalised
Total	**2,100.0**	**2,100.0**	

*Instrument details are provided in Annexure-1

Rationale

The finalisation of the rating follows fulfilment of all conditions under the structure as mentioned to ICRA including execution of the transaction documents, and the executed documentation being in line with the drafts shared with ICRA.

ICRA has taken a consolidated view of Candor Kolkata One Hi-Tech Structures Private Limited (CK1) and Candor Gurgaon Two Developers & Projects Limited (CG2), hereinunder collectively referred as Candor, given strong management linkages and the proposed acquisition of 99.99% equity shares of CG2 by CK1. Further, there is an unconditional and irrevocable guarantee from Candor Gurgaon Two Developers & Projects Limited for the rated facility.

The rating continues to reflect the strong operational profile marked by healthy occupancy and stable lease rentals. The overall occupancy stood at 95% for CK1 and 99% for CG2 at the end of June 2018. ICRA's rating draws comfort from Candor's portfolio of completed properties having favourable location with a reputed tenant profile, which has ensured a steady growth in the consolidated scale of operations. The consolidated revenue from operations stood at Rs. 562 crore in FY2018 as compared to Rs. 506 crore in the previous year. In addition, the rating also draws comfort from incremental leasing rates which have continued to remain healthy at around Rs. 80-85 per sq. ft. in Gurgaon and Rs. 40-45 per sq. ft. in Kolkata. Also, the rating takes into account Brookfield's extensive experience in the development and leasing of real estate properties.

While assigning the rating, ICRA has taken note of the bullet redemption of the rated NCDs after 36 months. The rating favourably factors in the availability of a back-up line amounting to Rs. 3,866 crore which provides for availability of funds for future refinancing and serviceability needs of the company, thus reducing the risk for the rated instrument. Prior to the issuance of the NCDs, Candor will utilise the backup line to fully repay the existing LRD loans in both the entities through drawdown to the extent of upto Rs. 1512 crore in tranche I. The rating also draws strength of the proposed Rs. 68 crore undrawn line of DSRA that will also support the liquidity in case of any exigency.

The rating is however, constrained because of high concentration risk given that the top-five tenants account for around 92% of the leased area in CK1 and around 81% of the leased area at CG2. In the backdrop of this high concentration, the cash flows of the company may be impacted in case any of these tenants, occupying large space, decides to exit and there is a lag in arranging a new tenant to occupy the vacant space. ICRA's rating also take into account the upcoming lease expiry of 15% of the area in CG2 and 11% of the area in CK1 during CY2019, the renewal of which at competitive rates would remain critical for the company. The rating also takes cognizance of the construction and leasing risk associated with 0.74 mn. Sq. ft. area under advanced stages of construction in the properties. Given that the funding tie-

[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*

up is in place and the promoters have extensive experience in developing and leasing of the real estate properties, it mitigates the new project related risks to an extent. Further, the proposed reduction of the current tax deducted at source (TDS) rate after the planned merger of the two entities would remain a key monitorable given that will underpin the cash flows over the medium term.

Outlook: Stable

ICRA believes Candor's cash flows would be supported the healthy occupancy level in both the properties and would remain sufficient to meet the current debt obligations. The outlook may be revised to 'Positive' in case of healthy improvement in the rental revenues, thus, improving the operational cash flows of the company. The outlook may, however, be revised to 'Negative' if the occupancy declines or there is significant increase in the debt levels leading to deterioration of the capital structure and weakening its cash cover to level lower than the rating category.

Key rating drivers

Credit strengths

Healthy occupancy levels with marquee tenants – CK1 and CG2 have 2.53 mn. Sq. ft. and 3.64 mn. Sq.ft. of leasable area respectively. As on June 2018 end, occupancy was high at 95% and 99% respectively. In addition, the tenant profile constitutes some marquee multi-national corporates who have a presence across various sectors such as IT, Consulting and BFSI, thus mitigating any sectoral concentration risks.

Strong promoters with established track record – CK1 and CG2 are both owned by Brookfield funds and managed by Brookfield, which has established track record of developing and leasing properties. As such, the ratings factor in the benefit drawn by Candor by leveraging its promoters' extensive experience and association with companies, both global and domestic.

Availability of funds mitigates refinance risk - ICRA has taken note of the bullet redemption of the rated NCDs after 36 months. The rating favourably factors in the availability of a back-up line amounting to Rs. 3,866 crore which provides for availability of funds for future refinancing and serviceability needs of the company, thus reducing the risk for the rated instrument. The rating also draws strength of the proposed Rs. 68 crore undrawn line of DSRA that will also support the liquidity in case of any exigency.

Credit challenges

High tenant concentration and upcoming lease expiry - Currently, the top-five tenants account for around 92% of the leased area in CK1 and around 81% of the leased area at CG2. In the backdrop of this high concentration, the cash flows of the company may be impacted in case any of these tenants, occupying large space, decides to exit and there is a lag in arranging a new tenant to occupy the vacant space. Also, Candor has upcoming lease expiry of 15% of the area in CG2 and 11% of the area in CK1 during CY2019, the renewal of which at competitive rates would remain critical for the company.

Exposure to new project related risk – Candor is currently having 0.74 mn. Sq. ft. of area under advanced stages of construction which exposes it to construction and leasing risk. However, the risk is mitigated to some extent by the funding tie-up being in place and the extensive experience of the promoters in developing and leasing of the real estate properties.

Timelines of approval of the proposed merger as well as reduction in TDS rate -The approval of the merger of CG2 and CK1 from NCLT and timelines for conclusion of the same would remain a key rating monitorable. Further, the proposed reduction of the current tax deducted at source (TDS) rate after the planned merger of the two entities would remain a key monitorable given that will underpin the cash flows over the medium term.

Liquidity Position:

The current healthy occupancy level with strong lease rentals are expected to generate healthy cash flows for the company. Further, the overall repayment obligations for Candor remain low for the upcoming 24 months from the date of issue of NCDs as the existing loans are proposed to be refinanced through new loans. The new facility would have a moratorium of 24 months and the NCD would have a bullet repayment at the end of 36 months. Hence, Candor would have only the interest servicing requirements over the next 24 months. ICRA expects the operational revenues to remain sufficient to service the interest on both the debt instruments. Also, the availability of the proposed Rs. 68 crore undrawn line of DSRA will also support the liquidity in case of any exigency. However, going forward, the reduction in TDS rates would remain critical for the company as it would release working capital and support the liquidity profile.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals
Parent/Group Support	Group Company: Candor Gurgaon Two Developers & Projects Limited The rating assigned to CK1 factors in the very high likelihood of its group company, CG2, extending financial support to it because of the strong management linkages between them. We also expect CG2 to be willing to extend financial support to CK1 out of its unconditional and irrevocable corporate guarantee.
Consolidation / Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them.

About the company

CK1 is a private limited company incorporated on October 13, 2005 as "Unitech Hi-Tech Structures Limited". It commenced business on October 26, 2005. The company was converted into a private limited company with effect from October 21, 2015. The name of the company was subsequently changed to "Candor Kolkata One Hi-Tech Structures Private Limited" with effect from January 27, 2016. The company is currently owned by BSREP India Office Holdings V PTE Ltd. (Brookfield). CK1 owns and operates a commercial property at New Town, Rajarhat, Kolkata. The project has a leasable area of 2.53 million sq ft. The company had leased around 95% of the leasable area as of June 2018.

In FY2017, CK1 reported a net profit of Rs. 59.5 crore on Operating Income (OI)[3] of Rs. 186.0 crore compared with a net profit of Rs. 37.5 crore on an OI of Rs. 155.5 crore in the previous year.

[3] Operating income includes income from lease rentals and maintenance services

Key financial indicators (Standalone)

	FY2017	FY2018
Operating Income (Rs. crore)	155.5	186.0
PAT (Rs. crore)	37.5	59.5
OPBDIT/OI (%)	58.05%	60.50%
RoCE (%)	12.98%	16.69%
Total Debt/TNW (times)	4.09	13.05
Total Debt/OPBDIT (times)	6.70	6.40
Interest Coverage (times)	1.34	1.30

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)					Chronology of Rating History for the past 3 years	
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2019		Date & Rating in FY2017	Date & Rating in FY2016
					Dec-18	Dec-18	Jan-18	Dec-18
1	Non-convertible debentures (NCD)	Long Term	2100	-	[ICRA]A- (SO) (Stable)	Provisional [ICRA]A- (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	NCD	To be placed	-	-	2100.0	[ICRA]A- (SO) (Stable)

Source: CK1

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Candor Gurgaon Two Developers & Projects Limited	-	Full Consolidation

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