



## Rating Rationale

**Kings Canyon SEZ Pvt. Ltd.**

**18 Mar 2019**

**Brickwork Ratings reaffirms ratings for the long term bank loan facilities of Kings Canyon SEZ Pvt. Ltd.**

### Particulars

Facility Rated	Previous Review Amount (Rs. Crs)	Current Review Amount (Rs. Crs)	Tenure	Previous Rating	* Rating Assigned
<b>Fund Based</b>  Term Loans(LRD)	<b>175.00</b>	<b>163.76</b>	<b>Long Term</b>	<b>BWR BBB+(SO)</b> (Pronounced as BWR Triple B Plus(Structured Obligation) ) <b>Outlook : Stable</b>	<b>BWR BBB+(SO)</b> (Pronounced as BWR Triple B Plus(Structured Obligation) ) <b>Outlook : Stable</b>  <b>Reaffirmed</b>
<b>Total</b>	<b>175.00</b>	<b>163.76</b>	<b>INR One Hundred Sixty Three Crores and Seventy Six Lakhs only</b>		

\* Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings.

### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR principally relied upon audited financials upto FY18, projections upto FY20 and publicly available information and information/clarification provided by the management.

While assigning the rating of Kings Canyon SEZ Pvt. Ltd. (KC SEZ or ‘the Company’), BWR has factored in the experience of the promoters and group, established escrow mechanism, improvement in profit margins, besides locational advantage and renowned Lessee. The rating is, however, constrained by high debt as compare to net worth and Significant Investment and Intra Group Transactions.

Going forward, company ability to timely receiving the rent receipts, meets its projected cash flows, besides improving the capital structure would be key sensitivities over short to medium term.

**18 Mar 2019**



### Credit Strength :

- **Experienced Promoters** :Incorporated in 1997, ASF Group is promoted by Mr. Anil Saraf and family. ASF Group has been engaged in the development of Commercial real estate / Special Economic Zones and IT Parks. The group specializes in delivering build-to-suit and state-of-the-art IT infrastructure and commercial buildings. The Group has substantial presence in Gurgaon and Noida.

Kings Canyon SEZ Pvt Ltd (KC SEZ), is promoted by ASF Buildtech Private Limited (ASF). In 2011, KC SEZ was formed by demerger of ASF SEZ whereby the lease rental related business from the building - B2 'Kings Canyon' (including the related assets and liabilities) were transferred into KC SEZ. The above scheme of demerger was sanctioned by High Court vide order dated Dec 10, 2015, Effect in the financials has been given from the FY16. ASF Buildtech holds 77.27% and balance is with ASF Insignia SEZ Pvt. Ltd.

ASF Insignia SEZ Pvt Ltd (ASF SEZ) is a Special Purpose Vehicle (SPV) promoted by ASF Buildtech Private Limited for the development of an IT/ ITeS sector-specific SEZ in Gurgaon. The SEZ project 'ASF Insignia' involves of development of three multi-storied commercial buildings in the processing-zone with real estate development in non-processing zone. The Insignia IT SEZ comprises 20 acres of Non-processing zone (primarily residential) and 27 acres of Processing Zone comprising 3 commercial projects as outlined below:

1. B2 - Kings Canyon (Subject project); completed and fully leased commercial IT space; held in SPV – Kings Canyon SEZ Pvt Ltd
  2. B3 – Grand Canyon – completed, partly leased (50%) commercial IT space; held in SPV Grand Canyon SEZ Pvt Ltd
  3. B1 - It has been demerged into Black Canyon SEZ Pvt Ltd and now only NPZ Assets remains in ASF Insignia SEZ Private Ltd.
- **Maintenance of DSRA and Escrow account:** The rated facility is backed by an escrow arrangement and stipulates maintenance of Debt Service Reserve Account (DSRA; equivalent to 3 months interest) and exclusive charge of the lenders on the same. As per the escrow mechanism, the lessee would directly deposit the lease rentals in the bank on monthly basis based on the pay-in dates as per the lease agreements. The rating(SO) is thus specific to the Lease Rental Discounting(LRD) loan and doesn't factor in cash flows adequacy of the company as a whole.
  - **Locational Advantage and Renowned Lessee** : The project is situated in Gurgaon,



which is one of the top city for the IT sector and is popular among IT companies for their operations. The project has an SEZ status which provides tax concessions to the developer includes exemption from central/state sales tax, service and income tax, .The company has signed lease agreements for ~100% of the total area (9.20 lsf) of Kings Canyon (Building B-2) with MNC companies including TCS, IBM and Ericsson with tenure ranges from 7 -12 years, provides visibility of rental revenues for Tower B2.

- **Improved margins** :Net profit margin of the company has improved from negative(15.70%) to 10.70% in FY18 and operating profit margin is moderate at 92.47% in FY18.

#### **Credit Weakness :**

- **Leverage position and Limited Cash Flows** : Gearing of the company is high mainly due to low net worth owing to demerger. After the creation of the demerged entity, since, it was a completed as well as self-sustaining project, the promoters have deliberately kept low share capital. There is limited gap between pay in and payouts , and free cash flows after meeting debt repayment obligations.
- **Significant Investment and Intra Group Transactions** : The company has made significant investment in the group company ASF Insignia SEZ Pvt. Ltd. of Rs 156.01 Cr in FY18 and short term loans and advances outstanding to the related parties of Rs 131.12 Cr in FY18.

#### **Liquidity :**

Liquidity of the company is supported by good cash accruals of Rs 25.28 in FY18. However cash and cash equivalents reduced from Rs 21.16 Cr in FY17 to Rs 2.35 Cr in FY18.

#### **Analytical Approach:**

The word “ SO” is parenthesis suffixed to a rating symbol stand for Structured Obligation. An ‘SO’ rating is specific to the rated issue, it's terms and its structure and does not represent BWR opinion on the general credit quality of the issuers concerned. Due to the creation of the rental escrow mechanism, coupled with DSRA for the rated loan programme, the cash flows of the rated loan would be ring-fenced from the overall cash flows of KC SEZ Pvt. Ltd., hence, the rating primarily factors in the cash flow adequacy for the rated loans alone and not those of the entity as a whole.

#### **Rating Outlook: Stable**

BWR believes the Kings Canyon SEZ Pvt. Ltd.’s business risk profile will be maintained over the medium term. The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit



show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures, besides deterioration in gearing.

### Company's Financial Performance

Particulars	Units	FY2017 (Audited)	FY2018 (Audited)
Net Sales/Revenue	Rs. Crores	70.69	71.29
EBIDTA	Rs. Crores	68.03	65.92
PAT	Rs. Crores	-11.10	7.63
Tangible Networth	Rs. Crores	-8.15	-0.33
Total Debt	Times	435.00	529.44
Current Ratio	Times	11.92	3.20

### Rating History for the last three years: (including withdrawn/suspended ratings)

S.No.	Instrument/ Facility	Current Rating (2019)			Rating History		
		Type	Amount (Rs Crs)	Rating	2018	Dec, 2017	2016
1.	Term Loan(LRD)	Long Term	163.76	<b>BWR BBB+(SO)</b> (Pronounced as BWR Triple B Plus(Structured Obligation) ) <b>Outlook : Stable</b>  (Reaffirmed)	No Change	<b>BWR BBB+(SO)</b> (Pronounced as BWR Triple B Plus(Structured Obligation) ) <b>Outlook : Stable</b>	NA
<b>Total</b>			<b>163.76</b>	<b>INR One Hundred Sixty Three Crores and Seventy Six Lakhs only</b>			

Status of non-cooperation with previous CRA (if applicable) – NA

Any other information - NIL

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**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Services Sector](#)
- [Structure Obligations\(SO\)](#)

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**Note on complexity levels of the rated instrument:**

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**About Brickwork Ratings**

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