



Press Release

Primeco Realty Private Limited

May 30, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term – Proposed LRD	200.00	Provisional IVR BBB-/Stable Outlook (Provisional IVR Triple B Minus with Stable Outlook)	Assigned
Total	200.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned are provisional (denoted by the prefix 'Provisional' before the rating symbol) and is subject to fulfilment of the conditions and execution of necessary transaction documents. The final rating may differ from the provisional rating in case any of the condition remains unfulfilled and/or the completed documentation is not in line with Infomerics' expectations.

The aforesaid rating assigned to the proposed bank facilities of Primeco Realty Private Limited (PRPL) derives comfort from its experienced promoters, established brand recognition, refinancing of existing loan using LRD with extended tenure and escrow mechanism. However, the rating strengths are partially offset by the timely renewal of lease agreement with adequate rental escalation, high exposure in group entities, Vulnerability of timely debt servicing to delays in rentals receipt and a lack of alternate cash flows.

Key Rating Sensitivities

Upward Factors

- Reduction in Debt Levels resulting in LRD Debt to annualized Lease Rentals and repayment of construction debt
- Faster-than-expected ramp-up of lease rentals, strengthening the financial risk profile, especially debt protection metrics.

Downward Factors

- Weakening of debt protection metrics leading to LRD debt to annualized Lease rentals.



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- Decline in projected cash flows due to increase in expenses.

Detailed Description of Key Rating Drivers

Key Rating Strengths:

Extensive experience of the promoters

Infomerics believes that the extensive experience of the promoters will continue to support the business risk profile of the PRPL as promoters have 30 years of experience in executing both residential as well as commercial projects in the city of Bengaluru, thus helping to forge healthy relationship with customers as well suppliers.

Favorable Location of commercial property:

The location of the property is Bilekahali Village (near IIM Bangalore), Bannerghatta Road which is a favorable location of the south Bengaluru property with good connectivity to other parts of the city. The property is well maintained and strategically located and is well connected to the other part of the city, it is very attractive for the tenants. Also, the rentals are competitive and have allowed the property to attract and retain tenants.

Reputed Client

PRPL has entered into a lease agreement with to lease out office building situated at Bilekahalli Village, Bennarghatta Road, Bengaluru. The tenant profile also remains strong with marquee tenants such as LKQ India Pvt. Ltd., BIAS Infotech Pvt. Ltd., MACH Clearing solutions (India) Pvt. Ltd., Huron Eurasia (I) Pvt. Ltd, Oaknorth analytical Intelligence Pvt. Ltd, Neustar Data Infotech (I) Pvt. Ltd, Paychex IT Solutions India Pvt. Ltd. etc. which reduces the counterparty default risks.

Proposed Escrow mechanism and structured payment

The bank loan facility has been proposed to be structured in the form of a Lease Rental Discounting (LRD) facility. The terms of the LRD facility require that the lease rental receivables from the tenants be routed directly to an Escrow Account set up specifically for the repayment of the said LRD facility and are applied towards payment of the scheduled interest and principal repayments. The balance amount is to be transferred to the corporate account of PRPL.



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Presence of Land bank

PRPL has land bank of 40.33 acres with a market value of ~Rs.139.00 Cr in the Bengaluru region alone, which was acquired at low rates, providing flexibility to raise additional funds if needed.

Moderately healthy Occupancy levels

Currently, the occupancy level remains healthy at 45.01% in Primeco Tower where the company has already signed the leased out (31.61%) and for the rest of areas, letter of intent (LOI) has been done. Remaining unleased, 54.99% area is proposed to be leased out in the present fiscal of 2021.

Key Weaknesses

Exposure to group entities

Primeco Realty Private Limited's financial risk profile is constrained due to significant exposure to its associate companies. As on March 31, 2019, loans and advances given to associate concerns stood at Rs.145.02 crore. Infomerics believes that the ability to curtail these exposures especially in the event of a slowdown in cash flows from commercial space operations will be a key rating monitorable.

Vulnerability of timely debt servicing to delays in rentals receipt

Receipt of rentals in a timely manner on a monthly basis would determine the company's ability to service debt obligations in a timely manner.

Susceptibility to vacancy risk

Lease rentals are the only source of income for PRPL. An early termination of contract can substantially impact business and financial risk profile of the Company. However, major tenants have invested in fit-outs which partially offsets vacancy risk.

Leveraged capital structure and susceptibility to renewal of contracts:

Presently, the Company's capital structure is highly leveraged and the net worth remains negative due to losses occurred in its construction phase. However, capital structure is expected to improve in the medium term. Further, average cash flow cover for next three



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projected years stood at above 1.00x, reflecting PRPL's adequate cash flow to service its debt obligations under LRD. Also, timely renewal of lease agreement with adequate rental escalation will be key monitarable.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Structure Debt Transaction (Non- securitisation transaction)

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The term loan facility has been proposed to be structured in the form of a Lease Rental Discounting (LRD) facility. The terms of the LRD facility require that the lease rent receivables from the tenants be routed directly to an Escrow Account and applied towards payment of scheduled interest and principal repayments of the LRD facility. Overall liquidity position seems to be Adequate. Cash and cash equivalent was modest at Rs.4.21 crore as on March 31, 2019. Timely inflow of customer advances will remain a rating sensitivity factor.

About the Company

Primeco Realty Pvt. Ltd, part of SJR Group, was incorporated on April, 2015 and based out in Bangalore, Karnataka. The company is engaged in Real Estate and leasing of commercial properties. The company has constructed commercial complex "Primeco Towers" on Bannerghatta Road having total leasable area of 9,66,449 sq. ft. out of which land owner's share is 1,59,000 sq. ft. and company's share is 8,07,449 sq. ft. The construction work of the building is completed and company has started leasing the space to various companies.

Financials (Standalone Basis)

	(Rs. crore)	
For the year ended / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	16.22	10.58
EBITDA	14.82	8.51
PAT	3.50	-2.81
Total Debt	147.77	384.47
Tangible Network	1.09	-2.19



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EBITDA Margin (%)	91.35	80.48
PAT Margin (%)	21.00	-25.81
Overall Gearing Ratio (x)	135.71	-ve

Status of non-cooperation with previous CRA: None

Any other information: N.A

Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	LRD Facility*	Long Term	200.00	Provisional IVR BBB-/Stable Outlook	-	-	-

**LRD rating based on proposed LRD Facility*

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Debt- Proposed LRD	-	-	-	200.00	Provisional IVR BBB-/Stable Outlook