

Rating Advisory

March 27, 2020 | Mumbai

Elpro International Limited

Advisory as on March 27, 2020

This rating advisory is provided in relation to the rating of Elpro International Limited

The key rating sensitivity factors for the rating include:

Upward factors

- Improvement in overall average debt service coverage ratio (DSCR) to over 1.5 times, led by better-than-expected lease rentals or renewal rates
- Substantial liquidity availability with company to cover debt obligation for period of 6 months in absence of normalization of operations of mall
- Significant improvement in capital structure

Downward factors

- Drop in DSCR to below 1.05 for fiscal 2020 or 2021
- Unanticipated delay in lease payments, leading to cash flow mismatches or weakening of credit profile of the counterparty
- Any major debt-funded capital expenditure, or acquisition, or significant capital withdrawal, weakening the financial risk profile, particularly liquidity

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Elpro International Limited (EIL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If EIL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the company

EIL was incorporated in July 1962 as a public limited company. The company manufactures surge arresters and undertakes real estate development. Its multi-manufacturing facilities are in Pune and Hyderabad. Mr Rajendra Kumar Dabriwala and Mr Surbhit Dabriwala are the key promoters.

Elpro Estates Ltd (EEL) (Formerly known as 'Trump Properties Limited'): It is wholly owned subsidiary of EIL. It is currently undertaking construction of a mall.

Rating Rationale

March 24, 2020 | Mumbai

Elpro International Limited

Rating downgraded to 'CRISIL BB' ; Placed on 'Watch Negative'

Rating Action

Total Bank Loan Facilities Rated	Rs.96 Crore
Long Term Rating	CRISIL BB (Rating downgraded from 'CRISIL BBB-' ; Placed on 'Rating Watch with Negative Implication')

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has downgraded its rating on the long-term bank facilities of Elpro International Limited (EIL) to '**CRISIL BB**' from '**CRISIL BBB-**'; while placing the rating on '**Rating Watch with Negative Implications**'.

The rating action follows measures taken by various state governments towards containment of COVID-19 which includes temporary closure of non-critical establishments, inter-state transportation etc. along-with advisory against travel and visiting areas of mass gatherings. These measures are likely to impact the business profile of the company as it operates a mall ' Elpro City Square, and thereby may have an impact on its credit quality, especially liquidity position.

The rating are placed on 'Watch Negative' since CRISIL does not have full clarity on the extent of the impact on the rental income due to the aforementioned directives; and thereby the company's debt servicing ability and liquidity position in the near term. Further, while, most of the state government's measures are applicable till March 31, 2020, revocation of the measures will be contingent upon directive from the Central Government and extent of spread of COVID-19. A sustained long period of closures can result in significant deterioration in credit profiles of the company. On the other hand, a faster reversal to normalcy may contain the extent of deterioration likely in credit quality of the company. That said, the ability of the business to revert back to operational stability and any relief measures given by the government will be a key monitorable, and CRISIL will continue monitoring these events.

The CRISIL will also engage with the management to get clarity on the extent of the impact of the directive on the revenue, profitability and current liquidity position of the company. The watch would be resolved once the operations normalise and/or CRISIL is able to ascertain the impact of this on the business risk profile and financial risk profile, especially liquidity risk profile.

The rating reflects the company's track record in executing real estate projects and leasing of commercial units, and steady cash flow from its lease rental agreements for commercial units resulting in comfortable debt service indicators along with presence of an escrow mechanism and debt service reserve account. These strengths are partially offset by EIL's exposure to any disruption in lease agreements and susceptibility to cyclicity in the real estate sector.

Analytical Approach

For arriving at its rating, CRISIL has considered the consolidated financials of EIL along with its wholly owned subsidiary Elpro Estates Ltd (EEL) since both companies are into similar business activities and EEL is now merged with EIL.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

*** Track record in executing real estate projects and leasing of commercial units**

EIL manufactures surge arresters; over a period of time, it diversified its business activity by undertaking real estate development projects along with leasing of office space, land and industrial shed. The company also operates one mall at Pimpri-Chinchwad, Pune. Over the years, EIL has been able to leverage on its land holdings and build a reputation by timely execution of projects. Benefits from a successful track record should continue to support the business.

*** Comfortable debt service indicators along with presence of escrow mechanism and debt service reserve account for commercial properties**

Steady stream of rental from all commercial properties (excluding mall) should ensure that overall DSCR remains comfortable throughout the loan tenure. Presence of an escrow mechanism and maintenance of debt service reserve account equivalent to 3 months' interest and principal payment, provides comfort for timely debt servicing.

Weaknesses

*** Exposure to any disruption in lease agreements:**

EIL leases commercial properties and industrial sheds. In the event of disruptions such as changes in location of the operating units of the lessees, or any external factors such as changes in fiscal incentive structures rendering other regions more attractive, or labour-related issues in and around Pimpri-Chinchwad region in Pune, debt-servicing ability could be affected.

*** Susceptibility to cyclical in the real estate sector**

EIL is susceptible to risks pertaining to the real estate sector such as long gestation period of projects. Any time or cost overruns or delay in obtaining necessary approvals could affect the realizations and profitability of projects. Apart from the above-mentioned factors, the EIL's business and financial risk profiles are expected to be driven by the level of economic activity and the outlook for the real estate sector across Pune.

Liquidity Stretched

Liquidity position for loans taken against mall may get stretched in case rentals are not received timely and could lead to cash flow mismatches; amidst temporary lockdown of mall. However liquidity for the other commercial properties is expected to remain adequate as reflected in average DSCR of around 1.1 times over the loan tenure along with debt service reserve account (DSRA) equivalent to 3 months of principal and interest obligation.

Rating Sensitivity factors

Upward Factors

- * Improvement in overall average debt service coverage ratio (DSCR) to over 1.5 times, led by better-than-expected lease rentals or renewal rates
- * Substantial liquidity availability with company to cover debt obligation for period of 6 months in absence of normalization of operations of mall
- * Significant improvement in capital structure

Downward Factors * Drop in DSCR to below 1.05 for fiscal 2020 or 2021

- * Unanticipated delay in lease payments, leading to cash flow mismatches or weakening of credit profile of the counterparty
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About the Company

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Key Financial Indicators*

Particulars	Unit	2019	2018
Revenue	Rs crore	16.7	37.4
Profit after tax (PAT)	Rs crore	99.9	18.5
PAT margin	%	599.2	49.3
Adjusted debt/adjusted networth	Times	1.19	NM
Interest coverage	Times	5.7	1.6

*Consolidated Figures

NM ' not meaningful

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of Allotment	Coupon Rate	Maturity Date	Issue Size (Rs Cr.)	Rating Assigned with Outlook
NA	Term Loan	NA	NA	Feb-2029	89	CRISIL BB/Watch Negative
NA	Proposed Long Term Bank Facility	NA	NA	NA	7	CRISIL BB/Watch Negative

Annexure - List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Elpro Estates Ltd	Full	Common management and strong operational and financial link

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	96.00	CRISIL BB/(Watch) Negative			05-07-19	CRISIL BBB-/Stable	13-07-18	CRISIL BBB-/Stable			CRISIL BB+/Stable
								18-05-18	CRISIL BB+/Stable (Issuer Not Cooperating)*			
Non Fund-based Bank Facilities	LT/ST		--		--		--	18-05-18	CRISIL A4+ (Issuer Not Cooperating)*			CRISIL A4+

All amounts are in Rs.Cr.

*Issuer did not cooperate; based on best-available information

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Proposed Long Term Bank Loan Facility	7	CRISIL BB/Watch Negative	Proposed Long Term Bank Loan Facility	7	CRISIL BBB/Stable

Term Loan	89	CRISIL BB/Watch Negative	Term Loan	89	CRISIL BBB/Stable
Total	96	--	Total	96	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[CRISILs criteria for rating debt backed by lease rentals of commercial real estate properties](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings](#)

[CRISILs Criteria for Consolidation](#)

[The Rating Process](#)

[Understanding CRISILs Ratings and Rating Scales](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p>	<p>Rahul Guha Director - CRISIL Ratings CRISIL Limited D:+91 22 4097 8320 rahul.guha@crisil.com</p> <p>Jumana Badshah Associate Director - CRISIL Ratings CRISIL Limited D:+91 22 3342 8324 Jumana.Badshah@crisil.com</p> <p>Keval Doshi Rating Analyst - CRISIL Ratings CRISIL Limited D:+91 22 4254 8335 Keval.Doshi@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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