December 29, 2022

Stumpp Schuele & Somappa Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	75.00	75.00	[ICRA]BBB- (Stable); reaffirmed
Total	**75.00**	**75.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating continues to consider Stumpp Schuele & Somappa Private Limited's (3SPL) strong promoter background with a presence in several businesses such as auto ancillaries and real estate. The company has various land parcels and buildings, which have been leased out to its subsidiaries/companies with common promoters and external parties. The rating factors in the steady annual rental inflows from its factory spaces and warehouses in Bengaluru and Chennai. Given the healthy credit profile of the tenants and the common promoters with 3SPL, the vacancy risk and the counterparty default risk associated with the lease are low. Its new tenant, Schneider Electric, is expected to move into the facility by January 2023, earlier leased to Big Basket. The company has also refinanced its lease rental discounting (LRD) loan in FY2023 with a lower interest rate. The company also maintains a debt service reserve account (DSRA) to the tune of Rs. 2.85 crore (~2 months' EMI), which acts as an additional security for the timely debt servicing of the LRD loan. Post full commencement of a full fiscal of rentals from Schneider Electric, the company's leverage, i.e., LRD Debt/annualised rent, is expected to go below ~5.0x.

The rating is, however, constrained by the modest scale of operations (Rs. 20.3 crore operating income as on March 31, 2022) and the high tenant concentration risk with subsidiaries and Group companies accounting for 80% of the lease rentals. The company's refinancing also included incremental amount of ~Rs. 23 crore being drawn towards the ongoing capital expenditure to expand/upgrade the premises being leased out to Schneider Electric. On account of the same, the company's debt indicators are slightly weaker than the earlier estimates. That said, we expect the company to be able to comfortably service its debt servicing obligations through its rental inflows. The cumulative DSCR is currently estimated to be ~1.15x. Further, as on March 31, 2022, 3SPL had Rs. 190.0 crore of corporate guarantees (GC) as contingent and commitment liabilities on its books. These CGs are issued in favour of different banks against the loans availed by its subsidiaries. Any default by the subsidiaries will severely impact 3SPL's credit profile.

The Stable outlook reflects ICRA's expectation that the company will continue to benefit from the healthy financial background of the promoters and their operational track record of managing a variety of businesses, the steady periodic rentals from its subsidiaries and Group companies, and the presence of a long-term lease (including yearly escalation clause).

Key rating drivers and their description

Credit strengths

Strong promoter background – The promoters have a presence in several businesses ranging from auto ancillary to real estate in addition to various land banks in Bengaluru and Chennai. 3SPL derives most of its revenues from lease rentals received from its subsidiaries and Group companies. While the company has healthy cash flows and does not require financial support, the implicit financial support provides comfort to an extent.

Healthy leasing status and reputed tenant profile – The company has various land parcels and buildings, which have been leased out to subsidiaries/Group companies and external parties (previously Big Basket, replaced by Schneider Electric in FY2023). 3SPL received rentals of Rs. 17.6 crore in FY2022. The steady annual rental inflows from its well-located factory spaces and warehouses in Bengaluru and Chennai, leased out on a long-term agreement with a lock-in period of three years for some of the assets and an escalation clause on a yearly basis, provide comfort. Also, given the healthy credit profile of the tenants and the common promoters with 3SPL (for some clients), the vacancy risk and the counterparty default risk associated with the lease are low

Favourable location of assets – The favourable location of 3SPL's assets in Bengaluru and Chennai with good accessibility and proximity to commercial and residential neighbourhoods provides comfort. The location is the preferred micro-market for IT/ITeS firms, auto ancillary establishments, warehousing establishments, etc. The location has seen a lot of leasing interest from several companies in recent years, which has resulted in healthy demand for the properties in the region.

Credit challenges

High tenant concentration risk – 3SPL generates ~80% of its rental income from its subsidiaries and Group companies, making it vulnerable to any delays in rent remittance by the tenants. However, given the healthy credit profile of the tenants and the common promoters with 3SPL, the vacancy risk and the counterparty default risk associated with the lease are low. Any change in the tenant profile or any mismatch in cash flows arising out of vacancy of certain properties will be a key rating monitorable.

Risk arising out of CGs issued for subsidiaries and Group companies – As on date, 3SPL has Rs. 190.0 crore of CGs as contingent and commitment liabilities on its books. These CGs are issued in favour of different banks against loans availed by its subsidiaries. Any default by subsidiaries/Group companies will severely impact 3SPL's credit profile.

Vulnerability of coverage indicators to changes in interest rate – Debt metrics are expected to be slightly weaker, going forward, over earlier estimates on account of recent increase in quantum of loan and the ballooning structure of the EMI over the repayment schedule of the LRD loan. Also, given the nature of the borrowing, any steep increase in the interest rates can impact the company's debt coverage metrics, going forward.

Liquidity position: Adequate

The liquidity profile is expected to remain comfortable on the back of stable and predictable monthly rental collections. As it is a holding entity, 3SPL does not have any major operational expenses. Its repayment obligations are expected to be adequately met by the rental income from its leased property. 3SPL will continue to maintain DSRA of around Rs. 2.85 crore (~2.0 months of EMIs) as minimum balance.

Rating sensitivities

Positive factors – Upgrade in the rating would be linked to improvement in coverage indicators. Specific credit metrics leading to an upgrade could be DSCR remaining more than 1.3 times on a sustained basis.

Negative factors – Negative pressure on the rating could arise if any delay in timely rental receipts or any increase in leverage levels, leads to DSCR remaining less than 1.1 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals

Analytical Approach	Comments
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone profile of the rated entity.

About the company

Stumpp, Schuele & Somappa Private Limited was incorporated on February 19, 1960. The company is primarily engaged in real estate development such as construction, renting, leasing, sale of flats, etc. 3SPL has various land parcels and buildings, which have been leased out to subsidiaries/companies with common promoter group and others.

Key financial indicators

3SPL Standalone	FY2021	FY2022	H1 FY2023
Operating income (Rs. crore)	20.0	20.3	9.6
PAT (Rs. crore)	0.8	-2.1	-3.2
OPBDIT/OI	65.1%	58.8%	50.4%
PAT/OI	4.0%	-10.3%	-33.4%
Total outside liabilities/Tangible net worth (times)	-934.0	-52.4	NA
Total debt/OPBDIT (times)	7.2	7.7	NA
Interest coverage (times)	1.4	1.2	0.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation Note: Amount in Rs. crore; All calculations are as per ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Dec 29, 2022	Sep 14, 2021	Mar 23, 2020	Oct 30, 2019	Apr 10, 2018	-
1	Fund Based – Term Loan	Long Term	75.00	91.9*	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB (Stable) ISSUER NOT COOPERATING; Withdrawn	[ICRA]BB (Stable) ISSUER NOT COOPERATING*	[ICRA]BBB (Stable)	-
2	Fund Based – CC	Long Term	-	--	-	-	[ICRA]BB (Stable) ISSUER NOT COOPERATING; Withdrawn	[ICRA]BB (Stable) ISSUER NOT COOPERATING*	[ICRA]BBB (Stable)	-

* *Includes unsecured loans from directors*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund Based – Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: Click Here

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	Term Loan	Aug-2022	8.0%	Jul-2034	75.0	[ICRA]BBB- (Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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