



Press Release

Cardinal Energy and Infrastructure Private Limited (CEIPL)

August 01, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank facilities - Lease Rental Discounting (LRD)	83.04 (Reduced from 84.94)	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Total			83.04 (Rupees Eighty-three crore and four lakh only)		

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has reaffirmed its ratings to the aforesaid bank loan facilities of Cardinal Energy and Infrastructure Private Limited (CEIPL) factors in the Steady flow of lease rentals and completion of project cardinal one, locational advantage of the property, existence of an escrow mechanism and structured waterfall payment mechanism ensuring availability of healthy cash flows, long standing relationship with the renowned lessee minimising counter party risk; apart from the strength derived from the promoter's experience in the real estate industry. The rating, however, is partially offset by client concentration risk, and susceptibility to cyclical inherent in the real estate industry.

Key Rating Sensitivities:

Upward Factors

- Maintaining the liquidity, leading to a sustained improvement in the debt protection metrics
- Timely receipt of payments from counterparties



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Downward Factors

- Delay in payment or termination of lease agreement leading to reduction in cash surplus and weakening of liquidity position.
- Non-renewal/ fresh tie-ups at competitive rates upon the expiry of lease tenor
- Unplanned debt-led capex, leading to deterioration in the liquidity or debt protection metrics.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and management team

CEIPL is managed by a Swan Energy Group, whose portfolio spans across residential and commercial real estate development project, textile industry and Energy sector. The operations of CEIPL are headed by Mr. Nikhil V. Merchant, who has an experience of more than three decades in Textiles, Real Estate and Oil & gas sector. He is further assisted by his brother Mr. Paresh V. Merchant (Director at CEIPL) who has an extensive experience of 25 years in varied 2 industrial sectors. The promoters are well supported by an experienced second line of management.

Steady flow of lease rentals and completion of project cardinal one

CEIPL has leased out its premises at the IT park of Whitefield, Bengaluru and at Gachibowli area of Hyderabad to 2 tenants and receives steady cash flow in the form of monthly lease rentals. Lease Rentals are accounted for as per terms in the specific agreements on an accrual basis. Currently, the company has been receiving a steady flow of lease rentals from 2 tenants. The company has reported an increase of 3.63% in lease rental and stood at Rs. 34.27 crore in FY24 (refers to period April 1st, 2023, to March 31st, 2024) as against Rs. 33.07 crore in FY23. The overall revenue reported by the company has seen an improvement from Rs 33.07 crore in FY23 to Rs 144.75 Crore in FY24. The company has reported increase of more than 100% in top line in FY24 as compared to FY23 due to marginally increase in lease rentals and



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sale of flats from the project of cardinal one. However, there are still 22 flats which are unsold which is expected to be sold in FY25 and FY26.

Renowned lessee minimising counter party risk

The company has a lessee of international repute, for the property under consideration. The long-term lease arrangement with the company and a steady and satisfactory track record of rental receipts, provides adequate revenue visibility.

Strategic location coupled with healthy occupancy

The commercial property under consideration is located at strategic location in Bengaluru. All the leasable area in the park has been leased out, and there has been full occupancy mainly driven by the locational advantage. The company is protected partially against vacancy risk because of the long-term nature of the contracts and reputed clientele.

Escrow mechanism and structured payment waterfall along with DSRA support

The rated bank loan facility has been structured in the form of a Lease Rental Discounting (LRD) facility wherein the lease rent receivables from the tenants be routed directly to an Escrow Account set up specifically for the repayment of the said LRD facility. The lease rent amounts deposited into the Escrow Account would be applied towards statutory dues and the scheduled interest and principal repayments of the LRD facility as per the payment waterfall. Only after fulfilling the repayments towards the LRD facility, any amounts remaining in the Escrow Account would be allowed to be paid out to CEIPL. Also, there is a creation of DSRA, which provides cushion for servicing of company's debt obligation.

Key Rating Weaknesses

Susceptibility to cyclical nature inherent in the real estate sector

The real estate sector is volatile in nature with an inherent liquidity risk associated to it. There may be fluctuations in cash flows due to delayed realization & changes in regulatory requirements.



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Customer concentration risk

CEIPL has wholly leased out its property under consideration only to one lessee. However, this risk gets mitigated to some extent as the lease agreement has been entered for a long tenor with renewal option and the lessee is of international repute.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Lease Rental Discounting \(LRD\)](#)

[Criteria of assigning Rating Outlook](#)

[Policy on Default Recognition and Post-Default Curing Period](#)

[Complexity level of rated instruments/Facilities](#)

[Financial Ratios & Interpretation \(Financial Sector/Non-Financial Sector\)](#)

Liquidity: Adequate

The cashflows from operations shall be adequate to service the monthly obligations, aided by rental income. The lease rental discounting loan has an escrow mechanism which prioritizes debt repayment before any other utilization and is also backed by DSRA equivalent to 3 months of the interest payments. The Company has Cash and Cash equivalents of INR 31.32 crore as of FY24. The Company has generated Gross Cash Accruals of INR 6.34 crore in FY24.

About the Company

Cardinal Energy and Infrastructure Private Limited (CEIPL) based out of Mumbai, Maharashtra and incorporated in July 2008, is a real estate development arm of Swan Energy Group, promoted by Mr. Nikhil Vasantlal Merchant and Mr. Paresh Vasantlal Merchant.



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Financials (Standalone): CEIPL

For the year ended/ As on*	INR in Crores	
	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	33.07	144.75
EBITDA	36.76	28.27
PAT	-5.70	-2.42
Total Debt	612.59	617.85
Tangible Net Worth	-98.56	-115.49
EBITDA Margin (%)	111.16	19.53
PAT Margin (%)	-16.89	-1.66
Overall Gearing Ratio (x)	-6.22	-5.35
Interest Coverage (x)	1.08	1.25

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
					May 05, 2023	February 08, 2022	--
1.	Lease Rental Discounting (LRD)	Long Term	83.04	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB/ Stable	--

Analytical Contacts:

Name: Amit Bhuwania

Tel: (022) 62396023

Email: abhovania@infomerics.com



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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Lease Rental Discounting (LRD)	-	-	-	2036	83.04	IVR BBB/ Stable



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Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-Cardinal-aug24.pdf>

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

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.

