November 16, 2022

Keisha Enterprises Pvt. Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term loans	12.44	10.91	[ICRA]BBB- (Stable); reaffirmed
Unallocated limits	1.56	3.09	[ICRA]BBB- (Stable); reaffirmed
Total	**14.00**	**14.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation for Keisha Enterprises Pvt. Ltd. (KEPL) considers 100% occupancy of the warehouse by Qwik Supply Chain Private Limited (QSCPL), with the end user being Reliance Retail Limited. The rating also considers KEPL's comfortable debt coverage metrics going forward with five year average DSCR of 1.27 times (PY:1.29 times) and low leverage with Debt /net operating income of 2.31 times (PY:2.66 times) for FY2023 and the presence of a debt service reserve account (DSRA). The rating continues to factor in the extensive experience of the promoters of in the warehouse business and the favourable location of the warehouse near Kompally, Hyderabad.

The rating, however, remains constrained by KEPL's small scale of operations with expected revenue of around Rs. 4.0-4.5 crore over the medium term. The rating notes its high asset and tenant concentration risks, with the single warehouse leased to QSCPL contributing 100% to the total rental income. Consequently, the company is vulnerable to delays in rent remittance by the tenant or vacancy of the warehouse. However, KEPL - has been receiving timely - payments during the past few years. ICRA also notes the intense competition in the highly fragmented warehousing industry, dominated by many unorganised players in the Hyderabad region.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that KEPL will continue to benefit from the long-term lease agreement with QSCPL for the entire leasable area.

Key rating drivers and their description

Credit strengths

Experienced promoters in the warehouse leasing business - The promoters have been in warehouse leasing business for the last 15 years.

Favourable location of warehouse and a reputed tenant profile - The warehouse is located near Kompally, Hyderabad, which is near the Outer Ring Road (ORR), providing easy accessibility to various districts of Telangana. The company has lease agreement with QSCPL for its entire leasable area of 2,14,365 sq. ft and the warehouse is used by Reliance Retail Ltd. The company has lease agreement with QSCPL for 15 years for the entire leasable area with an escalation of lease rentals after every three years.

Adequate leverage and coverage metrics with presence of DSRA - The debt coverage metrics remained adequate going forward with an average five year DSCR of 1.27 times(PY 1.29 times) and low leverage with Debt/net operating income stood at 2.31 times (PY: 2.66 times) for FY2023. The company maintains DSRA of around six months of loan repayment (principal + interest) amount in the form of fixed deposits (FD).

Credit challenges

Small scale of operations and moderate profitability - The company's scale of operations is small with an expected revenue of Rs. 4-4.5 crore as it has a single warehousing facility with a leasable area of 2,14,365 sq. ft. The operating margin remained moderate at 67.7% in FY2022 and is expected to remain at a similar range going forward, as KEPL pays land lease rentals to its landlord, which accounts for ~15-16% of its revenue.

Asset and tenant concentration - The company faces asset and tenant concentration risks as it operates only one facility and the entire facility has been leased out to a single tenant, QSCPL. Its lock-in period has expired and QSCPL has an option to terminate the lease with three months of notice. However, the risk of termination is low with QSCPL investing significant amount for internal infrastructure in the warehouse.

Highly competitive and fragmented market - The industry is highly fragmented and competitive in nature, dominated by unorganised players.

Liquidity position: Adequate

The liquidity position of KEPL remains adequate, with expected accruals remain comfortable compared to debt repayment obligations and has unencumbered cash balances of Rs.0.32 crore as on March 31, 2022. The company has a debt service reserve account (DSRA) with the bank worth Rs. 1.30 crore (covering around six months of principal plus interest) as on October 31, 2022. The company does not have any capital expenditure plans over the medium term, so the liquidity profile of the company is expected to remain adequate.

Rating sensitivities

Positive factors - ICRA could upgrade KEPL's rating if there is diversification in the tenant base and increase in scale of operations along with improvement in leverage and coverage metrics with the utilization of cash surplus to accelerate debt repayment.

Negative factors - Pressure on KEPL's rating could arise if there is a delay in rental receipts from the tenant or the lease is renegotiated at a substantially lower rate or higher-than-expected operating expenditure resulting in adverse impact on the overall financial performance of the company. DSCR below 1.10 times on a sustained basis could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the company

About the company

Incorporated in 2017, KEPL is a special purpose vehicle (SPV) formed by Zeromile Warehousing Private Limited (ZWPL) for constructing and leasing of warehouse. KEPL has a 2,14,365 sq. ft. warehouse near Kompally, Hyderabad, which has been leased to QSCPL and is used by Reliance Retail Limited (Reliance Trends and Reliance Fresh). ZWPL is promoted by Mr. Sundeep Reddy and his family and has various warehouses under its portfolio in the Hyderabad region.

Key financial indicators

Standalone	FY2021	FY2022
	Audited	Provisional
Operating income	3.83	4.27
PAT	0.4	0.7
OPBDIT/OI	69.4%	67.7%
PAT/OI	9.4%	15.7%
Total outside liabilities/Tangible net worth (times)	61.0	21.0
Total debt/OPBDIT (times)	6.0	6.1
Interest coverage (times)	2.1	2.6

Source: Company Financials; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2023) Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating on	Chronology of Rating History for the past 3 years Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Nov 16, 2022	Aug 13, 2021	Sep 01, 2020	Sep 30, 2019
1	Term loan	Long-term	10.91	11.45	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Unallocated limits	Long-term	3.09	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund based Term Loans	Simple
Long-term Unallocated Limits	Not applicable

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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Fund-based – Term loans**	March-2018	NA	Dec-2028	10.91	[ICRA]BBB- (Stable)
-	**Unallocated limits**	NA	NA	NA	3.09	[ICRA]BBB-(Stable)

Source: Company

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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