

November 24, 2022

## BBM Estates Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Term Loan	110.00	110.00	[ICRA]A (CE) (Stable) Reaffirmed
<b>Total</b>	<b>110.00</b>	<b>110.00</b>	

Rating Without Explicit Credit Enhancement

[ICRA]A-

\*Instrument details are provided in Annexure-I

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

### Rationale

The [ICRA]A (CE) (Stable) rating is based on the strength of the corporate guarantee provided by Bommidala Enterprises Private Limited (BEPL), the parent of BBM Estates Private Limited (BBM Estates), for the rated borrowing programme. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, BEPL.

#### Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by BEPL in favour of the said instrument. While the guarantee is legally enforceable, irrevocable and unconditional, and covers the entire amount and tenor of the rated instrument, it does not have a well-defined invocation and payment mechanism. Taking cognisance of the above, ICRA has assigned a rating of [ICRA]A(CE) to the said instrument against the unsupported rating of [ICRA]A-. In case the rating of the guarantor were to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well. The rating of this instrument may also undergo a change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity or a change in the reputation sensitivity of the guarantor to a default by the rated entity or a change in the strategic importance of the rated entity for the guarantor. Further, any significant deterioration in the financial risk profile of BEPL would also result in a change in rating of BBM Estates.

#### Salient covenants of the rated facility

- » In the event of rent escalation, the escalation of rentals to be used for acceleration of loan repayment
- » Three months of interest and principal payments to an amount of Rs. 3.81 crore needs to be maintained as FD
- » Any demand made by the lender to Guarantor by way of demand notice shall be final conclusive and binding on the Guarantor
- » The guarantor shall not be entitled to the right conferred on sureties notwithstanding anything contained in Sections 133,134,135 139 and 141 of the Indian Contract Act, 1872 and waives any of its rights therein

### Key rating drivers and their description

#### Credit strengths

**Corporate guarantee from the parent company BEPL** – The rating draws comfort from the irrevocable and unconditional corporate guarantee for its Rs. 110.0-crore sanctioned term loan from its parent, BEPL (rated [ICRA]A(Stable)/[ICRA]A1).

**Favourable property location** – The company has a property in Old Mahabalipuram Road, Chennai’s prime IT corridor located next to the World Trade Center, Chennai. The location commands relatively premium office rentals, which would facilitate healthy rentals going forward as well. The company acquired a new property in a key industrial area of Bengaluru, which is used as a factory-cum-warehouse with leasable area of ~2,30,032 sq.ft. (apart from vacant land of 41,400 sq.ft.) The property was purchased at cost of Rs. 148.5 crore (excluding registration) and generates a total monthly rental of Rs. 1.11 crore. This purchase was funded by Rs. 90-crore LRD against Chennai property rentals, Rs. 31.9 crore unsecured loans from the promoters, and rest from internal accruals of the Group. Given the advantageous location of the properties, finding a new tenant would be relatively easy in case existing clients vacate.

**Healthy financial profile of BBM Estates** –BBM Estates has a comfortable capital structure and coverage metrics despite increase in debt in FY2022 to fund the acquisition of the new property in Bengaluru. As on March 31, 2022, the company had external debt of Rs. 95.5 crore against expected rentals of Rs. 36.98 crore in FY2023. The company’s DSCR is expected to remain comfortable at over 2.0 times.

## Credit challenges

**Modest scale of operations** – While acquisition of the new property in January 2022 increased the company’s rental potential, its scale continues to remain small with total leasable area of ~0.52 million sq. ft. (excluding vacant land) and estimated rental income of Rs. 36.98 crore in FY2023.

**High geographic and customer concentration risks** - The company has two properties, one each in Chennai and Bengaluru. The Chennai property is rented out to a single tenant, M/s. Trimble Information Technologies India Private Limited, and the overall tenant profile comprises five clients, thereby exposing the revenues to risks from loss of customers to competitive properties. However, the prime location of the properties mitigates the risk to an extent.

## Liquidity position: Adequate

### For the [ICRA]A (CE) (Stable) rating: Strong

The Group’s liquidity position is strong. It had free cash of Rs. 32.7 crore and liquid investments of Rs. 87.1 crore as on March 31, 2022, apart from buffer in working capital limits of ~Rs. 58-59 crore, against repayment obligations of Rs. 9.7 crore in FY2023. However, given the seasonality in tobacco procurement, liquidity buffer reduces during the peak procurement season (March-July and October-January). The liquidity improves as the inventory is used up during the non-peak season. This apart, the Group has Rs. 105-crore LRD loan available to be drawn down, if required.

### For the [ICRA]A- rating: Adequate

The company’s liquidity position **continues to be adequate** with healthy debt servicing commitments. The rental income from its leased assets is expected to comfortably cover the debt servicing commitments. There is further cushion available in the form of undrawn debt of Rs. 105 crore. However, utilisation of undrawn debt towards acquisition of new properties could affect the company’s liquidity and would be a key monitorable.

## Rating sensitivities

**Positive factors** – The ratings could be upgraded if there is an improvement in the credit profile of the guarantor, Bommidala Enterprises Private Limited.

**Negative factors** – The ratings may be downgraded if there is a deterioration in the credit profile of the guarantor or weakening of the form of support extended by the guarantor, BEPL. Further negative pressure on the rating could emerge with sharp deterioration in the earnings or significant rise in debt beyond the estimates, resulting in moderation of debt coverage metrics.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Debt backed by Lease Rentals (LRD-Lease Rental Discounting Loans)</a> <a href="#">Rating Approach - Explicit third-party support</a>
Parent/Group support	<p>Parent Company: Bommidala Enterprises Private Limited (BEPL) (rated [ICRA]A (Stable)/[ICRA]A1. For arriving at BEPL's ratings, ICRA has taken a consolidated view of BEPL and Premier Tobacco Packers Private Limited (PTPPL), given the close operational, financial and management linkages between the group entities. In addition, ICRA has also consolidated the financials of BBM Estates Private Limited (BBM Estates) and BBM Travel Retail Limited (BBM Travel) given the support extended by BEPL.</p> <p>The assigned rating for BBM Estates Private Limited is based on an unconditional, irrevocable corporate guarantee extended by BEPL.</p>
Consolidation/Standalone	The rating is based on the company's standalone financials

## About the company

BBM Estates Private Limited is a 57% subsidiary of Bommidala Enterprises Private Limited and owns a commercial property under the name, Varalakshmi Tech Park, in Chennai's OMR with eight floors and a built-up area of 2,90,000 sq. ft. The company was acquired by the Bommidala Group from the Hyderabad-based GMR Group in FY2014 and, subsequently, renamed as BBM Estates Private Limited. It acquired an industrial property in Bengaluru in January 2022 with a total leasable area of 230,032 sq. ft., apart from vacant land of 41,400 sq. ft. leased out to four different tenants.

## Key financial indicators (audited)

BBM Estates	FY2021	FY2022**
Operating income	19.9	16.7
PAT	11.5	1.0
OPBDIT/OI	97.5%	46.1%
PAT/OI	58.1%	5.9%
Total outside liabilities/Tangible net worth (times)	0.6	2.1
Total debt/OPBDIT (times)	1.7	18.0
Interest coverage (times)	7.9	2.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore \*\*Provisional financials

Source: Company, 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	Date & Rating in FY2022	Date & Rating in FY2021
					Nov 24, 2022	Aug 31, 2021	15-May-2020
1	Fund based - Term Loan	Long Term	110.00	95.5	[ICRA]A (CE) (Stable)	[ICRA]A (CE) (Stable)	[ICRA]A- (CE) (Stable)
							05-Apr-2019 [ICRA]A- (SO) (Stable)

## Complexity level of the rated instruments

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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-Term Fund based - Term Loan	Sep - 2019	NA	Sep - 2031	110.00	[ICRA]A (CE) (Stable)

Source: Company

#### Annexure II: List of entities considered for consolidated analysis - Not Applicable

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