

July 18, 2023<sup>(Revised)</sup>

## Mohan Enterprises: Rating downgraded to [ICRA]BBB+; outlook revised to Stable from Negative

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	1364.62	1364.62	[ICRA]BBB+(Stable); rating downgraded from [ICRA]A-(Negative) and outlook revised to Stable from Negative
<b>Total</b>	<b>1364.62</b>	<b>1364.62</b>	

\*Instrument details are provided in Annexure-I

### Rationale

For arriving at the rating, ICRA has taken a consolidated view of Mohan Enterprises (ME), Kalyani Techpark Private Limited (KTPL) and Kalyani Developers (KD) (together referred as the Kalyani Group), given the strong business and financial linkages, common promoters and management, and cash flow fungibility.

The rating downgrade for the Kalyani Group factors in the expected moderation of debt coverage metrics in FY2024 and FY2025 on account of increase in indebtedness and delay in ramp-up of occupancy levels. The Group's total debt increased to ~Rs. 3,170 crore as of July 2023, from ~Rs. 3,000 crore as of July 2022, while occupancy (including hard option) remained at similar levels of ~92% as of June 2023. Further, one of the Group's under-construction project in Hyderabad, which is likely to be completed by end of FY2024, has a bullet repayment of construction finance (CF) loan due in May 2024. However, the leasing level for the project is nil as on date thereby exposing it to refinancing risk. Availment of additional top-up loans against the existing buildings and healthy unencumbered cash balance of ~Rs. 101 crore as on June 30, 2023, partly mitigates the refinancing risk. The ramp-up in occupancy of operational assets and upcoming space, in a timely manner, will remain a key monitorable.

The rating continues to remain constrained by the high tenant concentration in the company's portfolio, with the top three tenants occupying around 43% of the total leased area across all assets. However, the favourable location of the projects and leasing pipeline mitigates the risk to an extent. The rating notes the Group's elevated debt levels resulting in moderate leverage levels with estimated debt/net operating income of 7.7 times as of March 2024. The rating also considers the vulnerability of debt coverage ratios to factors such as changes in interest rates or reduction in occupancy levels.

The rating, however, derives comfort from the favourable location of the company's projects in Outer Ring Road East, Kundalahalli and JP Nagar, Bangalore, and reputed tenant profile, which consists of VMWare, Oracle, Goldman Sachs, SanDisk, etc. ICRA takes note of the long lease tenures and investments made by the tenants towards fit outs in most cases, which mitigate the vacancy risk to some extent. The rating draws strength from the presence of escrow mechanism for all the rated loans, whereby rentals as well as maintenance income and electricity charges are directly deposited and maintenance of debt service reserve account (DSRA) covering three months' debt obligations for most of the lease rental discounting (LRD) loans.

The Stable outlook on the rating reflects ICRA's belief that the company will benefit from the Group's established track record in the commercial real estate market of Bangalore, healthy tenant profile and favourable location of projects.

### Key rating drivers and their description

#### Credit strengths

**Established track record of the Kalyani Group** – The Kalyani Group has a track record of more than two decades in the Bengaluru commercial office market. The first project of the Group, Kalyani Infotech, was launched in 1998. The Group has an operational commercial portfolio of close to 6.1 million sft as of June 2023.

**Favourable location of assets** – The company owns Kalyani Magnum, Krishna Magnum, Kalyani Vista, Solitaire, which are located at JP Nagar; Kalyani Platina Park, The Oak, The Crystal, and Cedar which are in Kundalahalli and Helios Business Park, which is in Kadubeesanahalli on Outer Ring Road East. All the assets are in established hubs for commercial office space in Bangalore.

**Healthy occupancy of operating asset with reputed tenants** – At a consolidated level, the occupancy of the operational assets (including hard options of 0.9 lakh sft) remains healthy at 92% as of June 2023 similar to July 2022. The Kalyani Group has reputed tenants viz. VMWare, Oracle, Goldman Sachs, SanDisk, We Work, etc. The long lease tenures and investments made by the tenants towards fit outs in most cases mitigate the vacancy risk to some extent.

### Credit challenges

**Expected moderation in debt coverage metrics** – Increase in debt levels and marginal decline in occupancy levels are expected to result in moderation of debt coverage metrics in FY2024 and FY2025. The Group's total debt increased to ~Rs. 3,170 crore as of July 2023, from ~Rs. 3,000 crore as of July 2022, while the occupancy (including hard options) remained at similar levels of ~92% as of June 2023. The Group has a healthy unencumbered cash balance of ~Rs. 101 crore as on June 30, 2023, which will support the company's liquidity position. The rating notes the vulnerability of its debt coverage ratios to factors such as changes in interest rates or reduction in occupancy levels.

**Exposure to refinancing risk for CF loan due in May 2024** – The Group has availed a CF loan of Rs. 225 crore for its under-construction project at Hyderabad, having a bullet repayment due in May 2024. The project does not have any pre-leasing as on date thereby exposing it to refinancing risk. Availment of additional top-up loans against the existing buildings and healthy unencumbered cash balance partly mitigates the refinancing risk. The ramp-up in occupancy of operational assets and upcoming space, in a timely manner, will remain a key monitorable.

**High tenant concentration** – The tenant concentration of the assets developed by the company is high with the top three tenants occupying around 43% of the total leased area across all assets. This exposes it to high market risks in case any of these tenants vacate their areas. Further, around 7.6% (4 lakh sft) and 6.2% (3.2 lakh sft) of the total occupied area as of May 2023, has its lease expiry scheduled within the next one-two years, respectively, thereby exposing it to vacancy risk. However, the favourable location of the projects and leasing pipeline mitigates the risk to an extent.

### Liquidity position: Adequate

The Group's liquidity position is adequate with an unencumbered cash balance of ~Rs. 101 crore as on June 30, 2023. The cash flow from operations and on balance sheet liquidity is expected to be adequate to meet the debt servicing obligations in FY2024. Besides, the company maintains DSRA of around Rs. 106 crore (average of three months principal + interest obligation) parked in fixed deposits.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the rating if there is a significant improvement in occupancy at adequate rent rates resulting in an improvement in debt coverage and leverage metrics. Specific credit metrics that could lead to a rating upgrade include a five-year average DSCR greater than 1.25 times on a sustained basis.

**Negative factors** – Negative pressure on the company's rating could arise if there is any material decline in the occupancy or inability to tie-up leases for the existing vacant area and upcoming space thereby impacting the ability to refinance the CF loan. Further, any significant increase in the indebtedness resulting in weakening of debt protection metrics and liquidity position, on a sustained basis, could be a credit negative.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Debt Backed by Lease Rentals</a> <a href="#">Rating Methodology for Real Estate</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the financials of the various group entities (as mentioned in Annexure-II) given the close business, financial and managerial linkages among them.

## About the company

Mohan Enterprises, a partnership firm formed in 1991, is involved in commercial real estate business in Bangalore. Till date, it has developed an area of around 33 lakh sft (ME's share being 27 lakh sft), which includes nine commercial office complexes located in JP Nagar (West Bangalore), Anand Nagar, Budigere Cross and Kundalahalli (East Bangalore). The occupancy of the operational portfolio stood at 89% as of June 2023. At present, it is developing one office building namely Kalyani Trident under JDA (50% share) with a leasable area of 0.5 lakh sft.

Kalyani Techpark Private Limited, incorporated in 2006, is involved in commercial real estate business in Bangalore. Till date, it has developed 33 lakh sft (KTPL's share being 23 lakh sft), which comprises three commercial office complexes located in Kundalahalli (East Bangalore) and Outer Ring Road, Bangalore. Its completed office portfolio runs close to 93% occupancy as of June 2023 with reputed tenants under long-term lease contracts.

Kalyani Developers is a partnership firm, which is developing a commercial office project in Hyderabad with a total leasable area of 14 lakh sft. The project is being developed through a JD agreement with the landowners, with Kalyani Developers having a 70% share of the rental income.

## Key financial indicators

Kalyani Group Consolidated	FY2021	FY2022	FY2023
	Audited	Audited	Provisional
Operating income	360.4	351.4	498.0
PAT	65.2	21.1	34.5
OPBDIT/OI	78.0%	64.1%	67.6%
PAT/OI	18.1%	6.0%	6.9%
Total outside liabilities/Tangible net worth (times)	3.8	4.3	4.8
Total debt/OPBDIT (times)	8.6	12.1	9.7
Interest coverage (times)	1.8	1.4	1.4

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

Source: Company, ICRA Research

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for past three years

Sl. No.	Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
			Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Jul 18, 2023	Dec 20, 2022	Nov 25, 2022	Sep 30, 2021	Jul 10, 2020
1	Term loan	Long-term	1364.62	1512.50	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	Unallocated	Long-term	-	-	-	-	-	-	[ICRA]BBB+ (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/ Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	<b>Term loans</b>	Aug 2017/Oct 2021	NA	May 2027/ Nov 2034	1364.62	[ICRA]BBB+ (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
<b>Mohan Enterprises</b>	100.00%	Full Consolidation
<b>Kalyani Techpark Private Limited</b>	100.00%	Full Consolidation
<b>Kalyani Developers</b>	100.00%	Full Consolidation

**Corrigendum**

Rationale dated July 18, 2023, has been revised with correction in operating income in key financial indicators on page number 3.

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