ICRA

May 31, 2024

Anamudi Real Estates LLP: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loans	347.00	347.00	[ICRA]A+ (Stable); Reaffirmed
Unallocated	3.00	3.00	[ICRA]A+ (Stable); Reaffirmed
Total	**350.00**	**350.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Anamudi Real Estates LLP (AREL) factors in the firm's position as one of the holding companies of the Godrej Group and the healthy increase in the market value of its listed investments leading to improvement in the ratio of external debt/market value of listed investments to 46% as of March 2024 from 56% as of December 2022. AREL is 100% owned by the Godrej family, which runs a large, diversified Indian conglomerate. Over the recent years, its investment book has gradually expanded. As on March 31, 2024, the firm's investment book (including loans and advances to Group companies) stood at Rs. 1,391 crore (around 71% of capital employed), of which Rs. 266 crore was in listed securities. Further, AREL owns 1,83,009 sq ft of leasable area in Godrej One, a commercial property in Vikhroli, Mumbai and 31,249 sq ft of leasable area in Godrej BKC, a commercial property in BKC, Mumbai. Both the assets are located favourably, with Godrej One located on the Eastern Express Highway in the suburbs of Vikhroli, and Godrej BKC in the key business district of BKC in Mumbai. The occupancy levels in Godrej One improved to 76% as of December 2023 from 29% as of September 2022, while the occupancy levels in Godrej BKC remained healthy at 100%. The rating draws comfort from the exceptional financial flexibility enjoyed by the firm, given its association with the Godrej Group, the favourable location and the quality of the properties owned by AREL and a strong tenant profile.

The rating, however, is constrained by the moderate debt coverage indicators for the firm on account of the high external debt in relation to its rental income. AREL's external debt increased to Rs. 672.1 crore as of March 2024 from Rs. 334.0 crore as of December 2022, as it availed additional debt in the form of loan against securities (LAS) of Rs. 150 crore and unsecured loan of Rs. 200 crore. Nonetheless, the other unencumbered cash flow sources in the form of dividend and interest income, returns from Alternate Investment Funds (AIF) investment and sale proceeds from other investments provides cushion for debt servicing. The presence of debt service reserve account (DSRA) equivalent to three months' principal and interest obligations for the lease rental discounting (LRD) loan provides liquidity buffer. The LAS loan and unsecured loan have bullet repayments falling due in FY2026 and FY2027, respectively, which exposes the firm to refinancing risk. However, the risk is mitigated by the significant market value of the listed investments, which supports its refinancing ability. Moreover, the partners/other Group entities are likely to provide funding support if need arises, as demonstrated in the past. The firm is exposed to moderate tenant concentration risk at both Godrej One and Godrej BKC properties. It also faces market risk for 24% of the area in Godrej One, which is yet to be leased. The weighted average lease expiry (WALE) for Godrej One and Godrej BKC is 3.6 and 2.0 years, respectively, which exposes the firm to vacancy risks.

In addition, in the backdrop of the constitution of the firm as a limited liability partnership (LLP), ICRA notes that any sizeable withdrawals by the partners, any further debt-funded acquisitions by the firm impacting its liquidity profile and coverage indicators, on a sustained basis, would remain a key rating sensitivity.

The Stable outlook reflects ICRA's expectation that the credit profile would be supported by the strong promoter profile, exceptional financial flexibility and the value of investments.

Key rating drivers and their description

Credit strengths

Strong management profile and financial flexibility from being part of the Godrej Group – AREL is 100% owned by the Godrej family, which runs a large diversified Indian conglomerate. The Godrej Group operates in diverse sectors such as real estate, consumer products, industrial engineering, appliances, furniture and financial services. As on March 31, 2024, the partners infused Rs. 279 crore in AREL in the form of interest-free subordinated loans, while the Group companies injected Rs. 400-crore inter-corporate deposits (ICDs). The firm enjoys exceptional financial flexibility by being a part of the Godrej Group. Apart from dividend income, interest income on investments, income from AIF, AREL's investment portfolio supports its financial flexibility.

Attractive location of both the commercial properties – Godrej One is located on the Eastern Express Highway in the suburbs of Vikhroli, which is emerging as an important real estate micromarket in Mumbai on the back of a strong infrastructure and urban connectivity. Godrej BKC is a premium commercial property at BKC, Mumbai, which is a key business district. Both the locations are attractive for the existing and prospective tenants.

Increase in market value of investments – The market value of AREL's investments in listed securities witnessed a healthy increase, leading to improvement in the ratio of external debt/market value of listed investments to 46% as of March 2024 from 56% as of December 2022. Over the recent years, AREL's investment book has gradually expanded. As on March 31, 2024, the firm's investment book (including loans and advances to Group companies) stood at Rs. 1,391 crore (around 71% of capital employed), of which Rs. 266 crore was in listed securities.

Credit challenges

Market risk for Godrej One and tenant concentration risk – As on December 31, 2023, the occupancy for Godrej One (Vikhroli) improved to 76% as of December 2023 (29% as of September 2022). However, the firm is exposed to market risk for the balance 24% area. The top two tenants at Godrej One occupy 29% of the leased area, while the top tenant at Godrej BKC occupies 51% of the leased area. Thus, the tenant concentration risk remains high. The WALE for Godrej One and Godrej BKC is 3.6 and 2.0 years, respectively, which exposes the firm to vacancy risks.

Moderate debt coverage metrics and refinancing risk – The firm's debt coverage indicators are moderate on account of high external debt in relation to its rental income. Its external debt increased to Rs. 672.1 crore as of March 2024 from Rs. 334 crore as of December 2022, as it availed additional debt in the form of LAS of Rs. 150 crore and unsecured loan of Rs. 200 crore. Nonetheless, the other unencumbered cash flow sources in the form of dividend and interest income, returns from AIF and sale proceeds from other investments provides cushion for debt serving. The LAS loan and unsecured loan have bullet repayments falling due in FY2026 and FY2027, respectively, which exposes the firm to refinancing risk. However, the risk is mitigated by the significant market value of the listed investments, which supports the firm's refinancing ability.

Liquidity position: Adequate

As on March 31, 2024, AREL had free cash and bank balance and liquid investments worth Rs. 51.1 crore. The cash flows from the rental business are currently inadequate to meet the debt obligations for the LRD loan. However, other unencumbered cash flow sources in the form of dividend and interest income, returns from AIF and sale proceeds from investments provide cushion for debt servicing of LRD loan and interest on LAS loan and unsecured loan. The LAS loan and unsecured loan have bullet repayments falling due in FY2026 and FY2027, respectively, which are expected to be refinanced. The liquidity position is, however, supported by the existing on-balance sheet cash of Rs. 51.1 crore, DSRA equivalent to three months' EMI as well as other income from investments. Moreover, the partners/other Group entities will be willing to provide funding support if need arises, as demonstrated in the past.

Rating sensitivities

Positive factors – A rating upgrade is unlikely in the medium term. Nonetheless, any significant and sustained reduction in external debt resulting in total debt/market value of the listed investments of below 15%, on a sustained basis, will be a credit positive.

Negative factors – Negative pressure on AREL's rating could arise if there is a longer-than-expected period of large vacancy and/or if there is a significant increase in the external debt in relation to the market value of investments.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Investment Companies Realty – Lease Rental Discounting (LRD)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

AREL is a 100% Godrej family-owned entity. It was formed on March 12, 2014 by converting the erstwhile Anamudi Real Estates Limited into a limited liability partnership. As on March 31, 2024, the firm's investment (including loans and advances to Group companies) was Rs. 1,391 crore, of which Rs. 266 crore was in listed securities (i.e., Godrej Industries Limited and Sobha Ltd), with a market value of around Rs. 1,447 crore. Additionally, AREL owns 1,83,009 sq ft of leasable area in Godrej One, a commercial property in Vikhroli, Mumbai and 31,249 sq ft of leasable area in Godrej BKC, a commercial property in BKC, Mumbai.

Key financial indicators

AREL	FY2023 (Audited)	FY2024 (Provisional)
Operating income	43.9	38.6
PAT	4.7	-42.9
OPBDIT/OI	70.3%	2.9%
PAT/OI	10.7%	-111.1%
Total outside liabilities/Tangible net worth (times)	2.3	3.0
Total debt/OPBDIT (times)	36.6	1,211.5
Interest coverage (times)	0.6	0.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 31, 2024	-	Feb 24, 2023	Jan 14, 2022
1	**Term loans**	Long term	347.00	322.1	**[ICRA]A+ (Stable)**	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**
2	**Unallocated**	Long term	3.00	-	**[ICRA]A+ (Stable)**	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Unallocated	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 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
-	**Long-term – Fund-based – Term Loan**	FY2021	-	FY2036	347.00	[ICRA]A+ (Stable)
-	**Long-term – Unallocated**	-	-	-	3.00	[ICRA]A+ (Stable)

Source: Company

Annexure II: 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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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