

February 28, 2022

Gopalan Enterprises: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	39.64	39.64	[ICRA]BBB+ (Stable) reaffirmed
Cash Credit	200.00	200.00	[ICRA]BBB+ (Stable) reaffirmed
Total	239.64	239.64	

*Instrument details are provided in Annexure-1

Rationale

The rating derives strength from the established position of the Gopalan Group in the Bangalore real-estate market and its diversified presence across residential, commercial office, hospitality and retail real-estate segments, including operation of multiplexes. The Group has a strong brand position and an established track record of project completions and deliveries. The rating takes into consideration Gopalan Group's commercial real-estate portfolio with a leasable area of around 4.1 million square feet (msft) that has an annualised rental income of close to Rs 156 crore. The Group has moderate leverage levels in the commercial leasing segment, with lease rental discounting (LRD) loans outstanding of around 2.6 times the annualized rent, which provides significant financial flexibility to the Group. The rating also takes into account the availability of large land parcels with the Group which supports the future development prospects. The Group is expected to receive substantial compensation from Bangalore Metro Rail Corporation Limited (BMRCL) for acquisition of certain land owned by the Group.

The rating, however, is constrained by the Group's exposure to execution, market and funding risks in the under-development and planned commercial-office-space projects. ICRA notes that the development of the projects will be planned in phases and the funding for the same is expected to be met through internal accruals without availing any construction finance facilities. The rating factors in the continued impact of the COVID-19 pandemic in the retail and hospitality segments of the Gopalan Group. In the view of the subdued performance in the retail segment in recent times, the Group is in process of converting majority of its retail spaces into coworking spaces. Timely leasing and efficient utilisation of the area as coworking spaces remains to be seen. Further, the rating considers the market risks associated with the under-construction and upcoming projects/phases in the residential segment of the Group. The sales from the residential projects have remained modest in the past leading to some dependence on debt financing. Nevertheless, reasonable pick-up in sales and collection momentum witnessed in recent quarters, mitigate the concerns to some extent.

The Stable outlook reflects ICRA's expectation that the Group's portfolio of operational commercial assets will support its financial risk profile in the near-to-medium term.

Key rating drivers and their description

Credit strengths

Established market position in Bangalore real-estate market - The Gopalan Group is one of the established real-estate developers in Bangalore with a track record of more than 30 years of operations. The Group has significant land bank located in and around Bangalore that supports its development prospects in the region. Gopalan Group has a strong brand position and an established track record of project completions and deliveries.

Diversified revenue portfolio with presence in residential, commercial, entertainment (multiplexes) and hospitality segments - Gopalan Group generates revenue primarily from three segments, namely sale of residential projects, lease income

from commercial property (office and retail) and income from multiplexes. The Group also has a completed 212-key hotel, located in Bangalore, operating under management contract with Accor Group.

Financial flexibility derived from the low leverage in the leased assets - Gopalan Group operates three commercial office and six retail mall assets with a total leasable area of 4.1 msft with annualised rent income of close to Rs 156 crore. The Group derives financial flexibility from the low leverage in this segment. The estimated LRD debt / annual rental ratio is around 2.6 times which provides sufficient headroom to draw additional LRD loans, if required. LRD debt constituted around 61% of the consolidated debt profile of the Group as on September 2021. The Group is expected to receive substantial compensation from Bangalore Metro Rail Corporation Limited (BMRCL) for acquisition of certain land owned by the Group, which will further support cash flows.

Credit challenges

Market risks in the residential real estate segment - Gopalan Group is currently developing three residential projects in Bangalore and has unsold inventory in some of the completed projects. The sales from the residential projects have remained modest in the past, leading to some dependence on debt financing. Nevertheless, reasonable pick-up in sales and collection momentum witnessed in recent quarters, mitigate the concerns to some extent. Apart from the unlaunched phases in the ongoing projects, the Group also has plans to launch a couple of new residential projects in Bangalore and Mysore.

Impact of pandemic in the retail and hospitality segments - Operations in the retail and hospitality segments of the Group continues to remain impacted by the restrictions imposed over the past two years, owing to Covid-19 pandemic. In the view of the subdued performance in the retail segment in recent times, the Group is in process of converting majority of its retail spaces into coworking spaces. Timely leasing and efficient utilisation of the area as coworking spaces remains to be seen. Though there has been reasonable recovery in the operating metrics of the hotel in Q3FY2022, the performance may remain moderate over the near to medium term.

High funding requirements towards ongoing/upcoming commercial projects - Gopalan Group is currently developing two large commercial office projects in Bangalore and Mysore and has plans for developing another large project in Bangalore in the near-to-medium term. However, the projects are expected to be developed in phases. Moreover, the Group plans to fund these projects through internal accruals without availing any construction finance loans.

Liquidity position: Adequate

The liquidity profile of the Group is adequate, supported by stable rental income in the commercial office segment, which provides a moderate surplus to the Group after servicing the associated LRD loans. Though rentals in the retail mall segment have been impacted due to Covid-19 pandemic, the low leveraging in the leasing segment with an estimated LRD debt / annual rental of around 2.6 times, provides financial flexibility to the Group. Additionally, Gopalan Group had free cash and bank balances of around Rs. 21.2 crore as on March 31, 2021.

Rating sensitivities

Positive factors – The rating might be upgraded if there is an improvement in the scale of operations backed by higher sales velocity and cash flows from the residential segment while maintaining comfortable leverage and debt coverage metrics.

Negative factors – The rating might be downgraded in case of sustained impact of pandemic on the retail and hospitality segment operations or weak sales velocity in residential projects resulting in strain in liquidity or higher leverage. Total Debt / annualised rent higher than 5.5 times on a sustained basis could be a trigger for rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities Rating Methodology for Debt Backed by Lease Rentals Rating Methodology for Hotel Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	While assigning the rating, ICRA has considered the consolidated operational and financial profile of GE and GEIPL given the strong financial linkages between the two entities with both of these being in the real-estate development business and having common promoters.

About the company

Gopalan Enterprises (GE) is one of the flagship entities of Gopalan Group, with Gopalan Enterprises (India) Pvt. Ltd (GEIPL) being the other major company. Gopalan Group was set up in 1985 by Mr C Gopalan, an architect and first-generation entrepreneur. The Group is involved in real estate development with presence in residential, commercial, hospitality and entertainment (multiplexes) business. Most of the projects are located in and around Bangalore and are executed under GE and GEIPL.

Key financial indicators (audited)

GE & GEIPL - Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	335.1	262.2
PAT (Rs. crore)	160.7	50.7
OPBDIT/OI (%)	51.3%	53.5%
PAT/OI (%)	47.9%	19.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	1.6
Total Debt/OPBDIT (times)	3.9	4.5
Interest Coverage (times)	2.1	1.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note: Amount in Rs. crore; All calculations are as per ICRA research

Source: Company, ICRA research

Status of non-cooperation with previous CRA:

GE has outstanding rating of CRISIL B/ Stable (ISSUER NOT COOPERATING) for Rs. 15.21 crore bank lines as per the rationale released on November 23, 2021.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					28-Feb-2022	4-Nov-2020	25-Sep-2020	07-Jun-2019	-
1	Term Loans	Long-term	39.64	18.50	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)	-
2	Cash Credit	Long-term	200.00	NA	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)	-
3	Unallocated	Long-term	-	-	-	-	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Cash Credit	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 analyzing 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: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	200.00	[ICRA]BBB+ (Stable)
NA	Term Loan – I	January 2015	-	December 2025	6.58	[ICRA]BBB+ (Stable)
NA	Term Loan – II	October 2017	-	March 2025	16.46	[ICRA]BBB+ (Stable)
NA	Term Loan – III	September 2020	-	March 2021*	11.98	[ICRA]BBB+ (Stable)
NA	Term Loan – IV	April 2018	-	March 2023	0.72	[ICRA]BBB+ (Stable)
NA	Term Loan – V	April 2019	-	March 2023	0.77	[ICRA]BBB+ (Stable)
NA	Term Loan – VI	September 2018	-	August 2023	0.73	[ICRA]BBB+ (Stable)
NA	Term Loan – VII	March 2011	-	February 2021*	2.40	[ICRA]BBB+ (Stable)

Source: Company

*Nil outstanding as on March 31, 2021 and as on date.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Gopalan Enterprises India Pvt Ltd (GEIPL)	Group Company	Full consolidation
Gopalan Enterprises (GE)	Group Company	Full consolidation

Source: Company.

Note: GEIPL has profit sharing of around 23% in GE.

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