

May 04, 2023

## Gopalan Enterprises: Rating reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	39.64	61.64	[ICRA]BBB+ (Stable); reaffirmed/assigned
Long-term Fund-based – Cash credit	200.00	200.00	[ICRA]BBB+ (Stable); reaffirmed
<b>Total</b>	<b>239.64</b>	<b>261.64</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation factors in Gopalan Enterprises' (GE) healthy sales and collections for its ongoing residential projects, along with improvement in occupancy and rentals inflows for retail malls resulting in a comfortable leverage with Total Debt/Cash flow from operations below ~2.2 times and healthy debt service coverage ratio (DSCR) of around 2.0 times in FY2023 and FY2024. The company's collections from the residential projects are estimated to increase by 55% YoY in FY2023, along with stable rental inflows from retail malls. The rating continues to consider the established position and track record of project completion and deliveries in the Bangalore real estate market and its diversified presence across residential real estate and retail malls, including operation of multiplexes and co-working spaces. The company derives healthy financial flexibility being a part of the Gopalan Group (Gopalan Enterprises (India) Pvt. Ltd (rated [ICRA]A- (Stable) holds majority stake in GE)), which has availability of large land parcels to support the future development prospects. Further, it is likely to receive substantial compensation from Bangalore Metro Rail Corporation Limited (BMRCL) for acquisition of land previously owned by GE.

The rating, however, is constrained by GE's modest scale of operations with estimated total collections of around Rs. 200-220 crore in FY2023. It is exposed to execution and market risks for the ongoing residential real estate projects of 2.75 million square feet (msf). Nevertheless, reasonable pick-up in sales and collection momentum over the recent quarters as depicted by the improvement in committed cash flow cover to 59% as of December 2022 from 23% as of December 2021, mitigate the concerns to some extent. The company is exposed to execution, funding, and market risks in the under-development commercial project – E Park – with a total area of 1 msf, which is in the nascent stages of construction and has no pre-leasing. The project is expected to be funded through internal accruals without availing any construction finance loan. GE is exposed to the inherent cyclicity in the residential real estate industry and geographical concentration pertaining to the Bangalore market.

The Stable outlook reflects ICRA's expectation that GE will continue to maintain healthy sales velocity in its ongoing residential projects, along with stable operational portfolio of the retail malls and low leverage.

### Key rating drivers and their description

#### Credit strengths

**Established market position in Bangalore real estate market** – The Gopalan Group (Gopalan Enterprises (India) Pvt. Ltd (rated [ICRA]A- (Stable) holds majority stake in GE)) is one of the established real estate developers in Bangalore with a track record of more than 30 years of operations, project completion and deliveries. The Group has significant land bank located in and around Bangalore that supports its development prospects in the region. The Gopalan Group has a healthy brand position and an established track record of project completion and deliveries.

**Diversified revenue portfolio with presence in residential real estate and commercial retail malls** – GE generates revenue primarily from the sale of flats from the residential real estate segment, lease income from the commercial property (retail and co-working space) and income from multiplexes. The annualised rent from retail malls/co-working spaces stands at Rs. 38-40 crore for FY2023. With improvement in sales velocity for flats in the recent quarters, the cash flows from the residential real estate segment are expected to improve with estimated increase in collections by 55% YoY in FY2023. It is likely to receive substantial compensation from BMRCL for acquisition of certain land, which was owned by GE.

**Higher financial flexibility from low leverage in leased assets and no project cost against residential real estate project** – GE derives financial flexibility from the comfortable leverage with Total Debt/Cash flow from operations below ~2.2 times and healthy DSCR of around 2.0 times in FY2023 and FY2024, which provides sufficient headroom to draw additional LRD loans, if required. The company does not have any construction finance loans against its ongoing residential real estate projects, hence there are no principal repayment. It utilises working capital limits of Rs. 200 crore for construction of residential projects, which stood at Rs. 196.7 crore as of December 2022.

### Credit challenges

**Modest scale of operations with exposure to market risk for residential real estate** – GE has modest scale of operations in the residential real estate segment with estimated total collections around Rs. 200-220 crore in FY2023. It is exposed to market risk associated with under-construction residential real estate projects. Nevertheless, reasonable pick-up in sales and collection momentum in the recent quarters, as reflected by the improvement in committed cash flow cover to 59% as of December 2022 from 23% as of December 2021, mitigate the concerns to some extent.

**Exposure to execution, market and funding risks for under-construction commercial project** – At present, GE is developing a large commercial office project – E Park, in Mysuru, with a total area of 1 msf, which is in the nascent stage of construction. The project is expected to be funded through internal accruals without availing any construction finance loans. However, it is likely to be developed in phases.

**Exposure to cyclical in real estate industry, geographical concentration and vulnerability to external factor** – Being a cyclical industry, the real estate business is highly dependent on macro-economic factors, which make the company's sales vulnerable to any downturn in real estate demand. In addition, GE is mainly concentrated in the Bangalore real estate market, which exposes it to geographical concentration risks. Any adverse development in the region can impact execution and sales of its projects. GE's revenues from malls/co-working space are exposed to adverse macroeconomic and external conditions such as the Covid-19 pandemic, which could impact their operations.

### Liquidity position: Adequate

GE's liquidity profile is adequate, supported by stable rental income in the retail/co-working segment and low leveraging in the leasing segment with an estimated LRD debt/annual rental of around 1 times, providing financial flexibility. There are no principal repayments on the debt against residential real estate projects as it uses fund-based working capital facilities for construction. The average utilisation of working capital limits stood at 95.2% for the last 12 months ending December 2022. Additionally, it had free cash and bank balances of around Rs. 2.37 crore as on December 31, 2022.

### Rating sensitivities

**Positive factors** – The rating could be upgraded if there is a significant increase in its scale of operations and cash flow from operations, backed by higher sales velocity in the residential real estate segment, while maintaining comfortable leverage and debt coverage metrics.

**Negative factors** – The rating might be downgraded in case of any significant decline in cash flows or weak sales velocity in the residential projects resulting in strain in liquidity or higher leverage. Any considerable increase in indebtedness resulting in deterioration of debt coverage metrics will be a negative factor.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology – Real Estate</a> <a href="#">Rating Methodology for Debt Backed by Lease Rentals</a> <a href="#">Implicit Parent or Group Support</a>
Parent/Group support	The rating considers implicit support from the Group company, GEIPL, which holds majority stake of 72.8% in GE and the balance is held by promoters of GEIPL. Further, it has provided corporate guarantee to one of the term loans of GE.
Consolidation/Standalone	Standalone

## About the company

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

### Key financial indicators (audited)

GE Standalone	FY2021	FY2022
Operating income	125.4	149.7
PAT	13.0	-9.5
OPBDIT/OI	32.7%	22.8%
PAT/OI	10.4%	-6.4%
Total outside liabilities/Tangible net worth (times)	0.5	0.9
Total debt/OPBDIT (times)	5.0	8.9
Interest coverage (times)	1.5	1.2

Source: Company data; 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 (FY2024)				Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Feb 28, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2022		Date & rating in FY2021	
				May 04, 2023	Apr 04, 2023	Feb 28, 2022	Nov 04, 2020	Sep 25, 2020	
1 Term loan	Long term	61.64	61.59	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	
2 Cash credit	Long term	200.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	
3 Unallocated	Long term	-	-	-	-	-	-	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term Fund-based – 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 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	Cash credit	NA	NA	NA	200.00	[ICRA]BBB+ (Stable)
NA	Term loan – I	2022	-	2027	30.77	[ICRA]BBB+ (Stable)
NA	Term loan – II	2022	-	2027	19.90	[ICRA]BBB+ (Stable)
NA	Term loan – III	2017	-	2026	7.30	[ICRA]BBB+ (Stable)
NA	Term loan – IV	2015	-	2025	3.67	[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 – Not Applicable**

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