December 27, 2023

Breal Estate One Private Limited: Rating reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	61.00	38.72	[ICRA]BBB-(Negative); reaffirmed; Outlook revised to Negative from Stable
Total	**61.00**	**38.72**	

**Instrument details are provided in Annexure I*

Rationale

The revision in the outlook on the long-term rating of Breal Estate One Private Limited (BEOPL) to Negative factors in the decline in occupancy to ~54% as of October 2023 from ~73% as of March 2023 and the resultant moderation in debt coverage metrics. In FY2024, as a part of internal arrangements among the family, Mr. Vir Kotak has officially stepped down from the directorship of the company. At present, BEOPL is being managed under the leadership of Mr. Dhruv Kotak. Consequently, two of the tenants (entities managed by Mr. Vir Kotak) vacated the premises. In the past, the property was occupied with tenants belonging to the Group. ICRA is given to understand that the company is now open to fill the vacant space with non-Group tenants. The company is in advance stages of discussion with prospective tenants and occupancy is expected to improve from the beginning of FY2025 and likely to reach to the previous level of ~73% by the end of FY2025.

While the leverage is expected to be healthy with Total Debt/NOI at 5.0 times as of March 2024, the debt coverage metrics (DSCR) is likely to remain below 1.0 times in FY2024-FY2025. However, ICRA takes note of the high cash balances of around Rs. 18.1 crore (excluding DSRA of Rs. 3 crore) as of November 2023, which has been earmarked for debt servicing and is sufficient to meet the shortfall in debt servicing in FY2024 and FY2025.

The rating continues to remain constrained by the modest scale of operations, high tenant concentration risk with top five tenants accounting for 88.3% of the leased area and asset concentration risk with BEOPL being a single-property company.

The rating draws comfort from the company's operational linkages with J.M. Baxi Group (the Group), as the asset is being used as a captive office for various Group companies. Further, there has been a demonstrated track record of support from the promoters in the form of fund infusion in BEOPL to the tune of Rs. 16 crore in the past (FY2019, FY2020 and FY2022). BEOPL, being part of J.M. Baxi promoter group, derives strong financial flexibility. The rating factors in the favourable location of BEOPL's commercial property in Sector 136, Noida, near the Greater Noida Expressway and the metro line.

Key rating drivers and their description

Credit strengths

Strong promoters lends financial flexibility – BEOPL is a part of the J.M. Baxi Group, one of the leading end-to-end logistics players in the country with a long operating history and has strong operational linkages with the Group. BEOPL, being part of J.M. Baxi promoter group, derives strong financial flexibility.

Demonstrated track record of promoters' support – The promoters infused Rs. 16.3 crore during FY2019-FY2023, which have been lien marked for the purpose of debt repayments. These are unsecured interest-free loans.

Operational property with favourable location – The commercial property is located in Sector 136, Noida, one of the prime destinations of Noida, close to Greater Noida Expressway. The current location is in close proximity to aqua line of Delhi metro. There is good connectivity by road and metro to all the major micromarkets of Delhi NCR.

Credit challenges

Decline in the occupancy – The occupancy has reduced to 54% as of October 2023 from 73% in December 2022. In FY2024, as a part of internal arrangements among the family, Mr. Vir Kotak has officially stepped down from the directorship of the company. At present, BEOPL is being managed under the leadership of Mr. Dhruv Kotak. Consequently, the tenants (entities managed by Mr. Vir Kotak) vacated the premises. In the past, the property was occupied with tenants belonging to the Group. ICRA is given to understand that the company is now open to fill the vacant space with non-Group tenants. BEOPL is already in advance talks with prospective tenants and occupancy is expected to improve from the beginning of FY2025 and likely to reach to the previous level of ~73% by the end of FY2025.

Modest coverage indicators resulting in high dependence on refinancing – While the leverage is expected to be healthy with Total Debt/NOI at 5.0 times as of March 2024, due to sizeable debt obligations when compared to rentals, the debt coverage metrics (DSCR) is likely to remain below 1.0 times in FY2024-FY2025. However, ICRA takes note of the available liquidity of around Rs. 18.1 crore (excluding DSRA of Rs. 3 crore) as of November 2023, earmarked for debt servicing and is sufficient to meet the shortfall in debt servicing in FY2024 and FY2025.

Exposure to tenant and asset concentration risks – The company is exposed to tenant concentration risks with top five tenants occupying 88.3% of the leased area. It is exposed to lease renewal risks for the occupied area as lease agreements are for 11 months only. However, in the past, the property was occupied with tenants belonging to the Group and has demonstrated track record of most of the leases getting renewed over the past 3-4 years. BEOPL, being a single-property company, is exposed to asset concentration risks.

Liquidity position: Adequate

The company has around Rs. 18.1 crore in cash and bank balance as FDRs (excluding DSRA) as of November 2023, which are lien marked against the loan and available for debt repayments. The scheduled debt repayments of around Rs. 1.8 crore in Q4 FY2024 and Rs. 9.4 crore in FY2025 can be comfortably met from the available liquidity.

Rating Sensitivities

Positive factors – The outlook can be revised to Stable from Negative in case of an increase in occupancy levels and significant improvement in debt protection metrics while maintaining adequate liquidity on a sustained basis.

Negative factors – The rating could be downgraded in case of inability to improve the occupancy levels or achieving rental escalations or increase in indebtedness leading to pressure on the company's liquidity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology -Lease Rental discounting (LRD) Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

Breal Estate One Private Limited (formerly known as Richa Cottex Private Limited) was incorporated in 2006 and was initially involved in manufacturing textiles. Subsequently, it ventured into commercial office development and constructed a Grade-A building in Sector 136, Noida. The property has 14 floors with multi-level basement parking and a total built-up area of 1,11,833 sq ft (leasable area of nearly 98,000 sq ft). BEOPL is a part of Mumbai-based J. M. Baxi Group, with a history of 100 years in the shipping logistics sector. At present, it is managed by Mr. Krishna Kotak and Mr. Dhruv Kotak, who have extensive experience in the shipping logistics business.

Key financial indicators (audited)

BEOPL	FY2022	FY2023
Operating income (Rs. crore)	9.1	12.4
PAT (Rs. crore)	-2.4	-3.5
OPBDIT/OI	51.1%	44.8%
PAT/OI	-26.4%	-28.2%
Total outside liabilities/Tangible net worth (times)	2.1	2.1
Total debt/OPBDIT (times)	13.9	10.6
Interest coverage (times)	1.2	1.7

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

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 (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Oct 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 27, 2023	Feb 28, 2023	Nov 22, 2021	Aug 20, 2020
1	Term loans	Long-term	38.72	38.72	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (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	**Term loan**	Jan 2019	9.15%	FY2028	38.72	[ICRA]BBB-(Negative)

Source: Company

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

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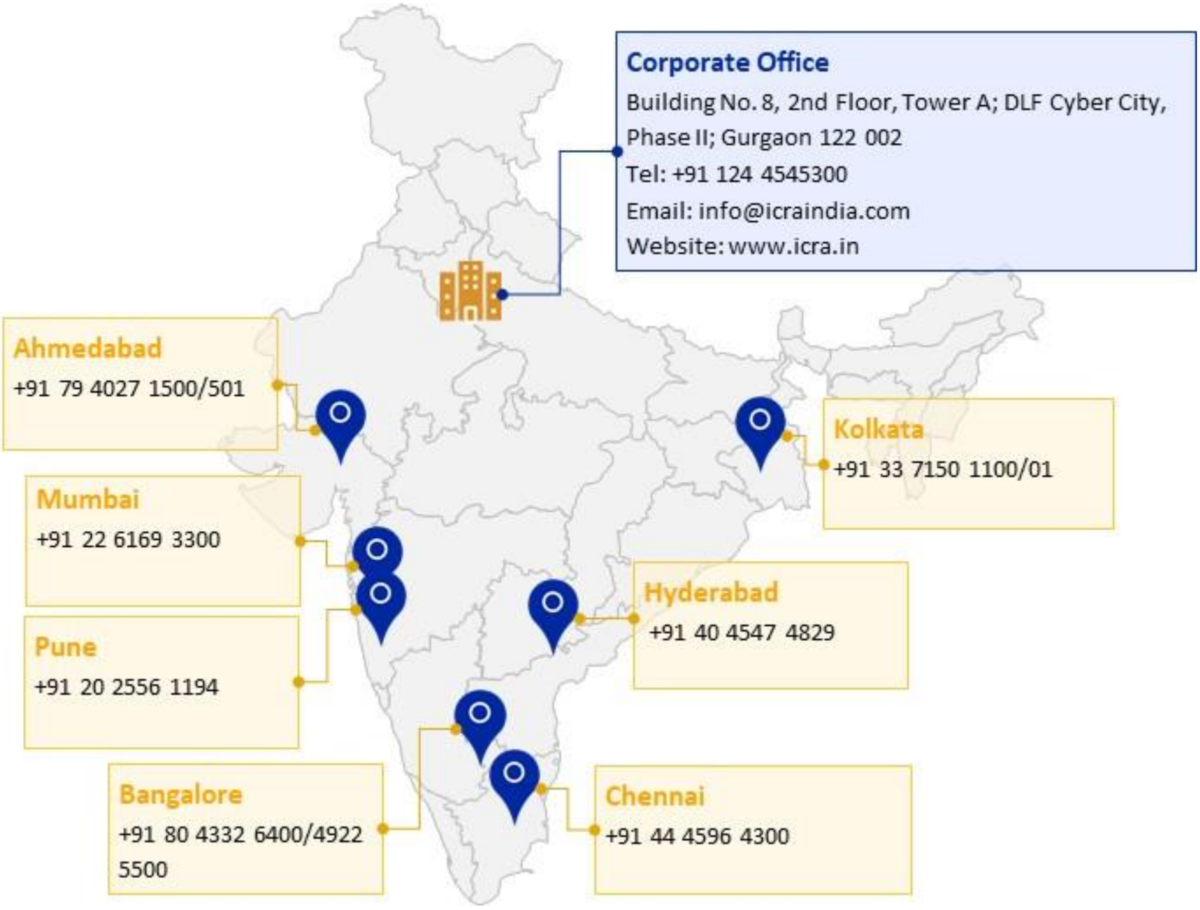

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