

March 28, 2024

Karle Homes Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	250.00	250.00	[ICRA]BBB- (Stable); reaffirmed
Total	250.00	250.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Karle Homes Private Limited (KHPL) factors in the healthy sales and collections from its ongoing project Vario and completed project Zenith. The estimated collections are projected to increase to Rs. 215-225 crore in FY2025 from Rs. 110-120 crore in FY2024 (PY: Rs. 128.0 crore). The company has further prepaid Rs. 30 crore of outstanding debt in March 2024 through infusion of funds from Group company – Karle Infra Private Limited, thereby reducing debt levels and improving Debt/ CFO to 2.1 times as of March 2024 from 2.8 times as of March 2023. On a consolidated basis, ~95% of area has been sold till December 2023 leading to healthy committed receivables of Rs. 247 crore. The ongoing project, Vario, has a pending cost of Rs. 84 crore and debt outstanding of Rs. 181 crore (both for Vario and Zenith projects) as of December 2023, leading to healthy cash flow adequacy ratio of 93% as of December 2023. The rating continues to factor in the location-specific advantage of the company's ongoing and completed project, being a part of the Karle Town Centre, Nagawara, Bengaluru, which is an integrated township project developed by the Group. The rating favourably considers the vast experience of the Karle Group's promoters in developing residential and commercial projects.

The rating, however, is constrained by the moderate execution risk of the Vario project as ~70% of the total construction cost has been incurred as of March 2024. Further, the completed project, Zenith, is susceptible to moderate market risk, given the high-ticket size of the project. Notwithstanding the estimated increase in collections in FY2024 and FY2025, KHPL's scale of operations remain moderate. Further, the company does not have plans to launch any new projects under KHPL in medium term. ICRA notes that the company is vulnerable to the inherent cyclicity in the residential real estate sector, which can expose it to any sharp changes in the underlying demand trend in the markets, wherein it operates.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that KHPL will continue to benefit from the healthy cash flow adequacy, healthy sales, and collections from the ongoing project Vario and location-specific advantage of the project.

Key rating drivers and their description

Credit strengths

Healthy cash flow adequacy – On a consolidated basis, ~95% of area has been sold till December 2023 leading to healthy committed receivables of Rs. 247 crore. The ongoing project, Vario, has a pending cost of Rs. 84 crore and debt outstanding of Rs. 181 crore (both for Vario and Zenith projects) leading to healthy cash flow adequacy ratio of 93% as of December 2023.

Location-specific advantage of project – The current ongoing project, Vario and the completed project, Zenith, is located in Karle Town Centre, Nagawara, Bengaluru, which is an integrated township project developed by the Group. The project is strategically located near the Nagawara Lake and Manyata Tech Park and is well connected to other micro markets of the city by road.

Experience of promoters in real estate industry – The Karle Group has over two decades of experience in developing residential and commercial real estate projects in Bengaluru.

Credit challenges

Moderate project execution and market risks – The ongoing project Vario is exposed to moderate execution risk as ~70% of the total construction cost has been incurred as of March 2024. Further, the completed project, Zenith, is susceptible to moderate market risk, given the high-ticket size of the project. While the remaining construction cost of the Vario project is likely to be funded from the committed receivables, the debt servicing is expected to be done via committed receivables as well as incremental sales from both the projects. Although the sales response has been encouraging, any decline in demand may impact its cash flow position.

Modest scale of operations – KHPL's estimated collections are expected to increase to Rs. 215-225 crore in FY2025 from Rs. 110-120 crore in FY2024 (PY: Rs. 128.0 crore). Notwithstanding the estimated growth in collections in FY2024 and FY2025, KHPL's scale of operations remain moderate. Further, the company does not have plans to launch any new projects under KHPL in medium term.

Geographical concentration risk and inherent cyclicity in real estate sector – With no upcoming project, the company is exposed to geographical and asset concentration risks. Further, KHPL is vulnerable to the inherent cyclicity in the residential real estate sector, which can expose it to any sharp changes in the underlying demand trend in the markets, wherein it operates.

Liquidity position: Adequate

The company's liquidity position remains adequate, supported by healthy sales and collection from the ongoing and completed project. As on March 15, 2024, KHPL had unencumbered cash and bank balance of around ~Rs. 3.0 crore. The scheduled principal repayment obligation of Rs. 75 crore in FY2025 can adequately be serviced through estimated cash flow from operations.

Rating sensitivities

Positive factors – The rating could be upgraded in case of significant increase in scale of operations resulting in improved liquidity position and debt coverage metrics on a sustained basis.

Negative factors – The rating may be downgraded in case of any significant delay in collection of committed receivables or delay in completion of project, increase in indebtedness, or loans and advances to Group companies adversely impacting the debt protection metrics and liquidity position on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Commercial/Residential/Retail
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Karle Homes Private Limited (KHPL), a part of the Bengaluru-based Karle Group, is involved in the developing of residential apartments and premium houses in Bengaluru. The company has completed the Karle Zenith project, which is a premium housing project with 396 apartments (3 BHK, duplex, premium 4 BHK and penthouse inclusive). It is currently constructing 375 apartments under the project Karle Vario. The project Vario is located in Karle Town Centre, Bengaluru, which is a mixed-use development project consisting of office space and residential units and is being developed by the Karle Group.

Key financial indicators

Standalone	FY2022	FY2023
	Audited	Audited
Operating income	183.3	115.0
PAT	- 0.8	- 16.6
OPBDIT/OI	15.8%	9.2%
PAT/OI	-0.4%	-14.4%
Total outside liabilities/Tangible net worth (times)	- 3.9	- 3.9
Total debt/OPBDIT (times)	12.4	13.9
Interest coverage (times)	1.1	0.4

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

Sl. No.	Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
			Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					March 28, 2024	Feb 09, 2023	-	-
1.	Term loan	Long term	250.0	180.7	[ICRA]BBB-(Stable)	[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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2023	NA	FY2027	250.0	[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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