

August 22, 2024

Carol Info Services Limited: [ICRA]BBB- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based –Term loan	450.00	[ICRA]BBB- (Stable); assigned
Total	450.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA's assigned rating for Carol Info Services Limited (Carol/ the company) factors in the current strong occupancy (100%) for its total leasable area of 1.67 lakh square feet (sq. feet), and the expectations that the occupancy will remain healthy going forward too. The company owns two properties, one at Bandra Kurla Complex (BKC), Mumbai, with a leasable area of 1.14 lakh sq. feet and another at Aurangabad (Maharashtra) with a leasable area of 0.53 lakh sq. feet. The company has a healthy track record of timely receipt of rent payments from its existing tenants which include Wockhardt Limited (Wockhardt, rated [ICRA]BBB- (Stable)/ [ICRA]A3) and Adani Electricity Mumbai Limited (Adani Electricity). Additionally, the location of the BKC property is one of the premium commercial property locations in Mumbai, supporting the property's value and rental income potential for the company. The rating also takes into account Carol's comfortable debt metrics with lease rental discounting (LRD) debt/ net operating income (NOI) and debt service coverage ratio (DCSR) in the range of 5.0-5.5 times and 1.25-1.30 times, respectively, as on March 31, 2024 (as per provisional estimates shared by the company) and ICRA expects the same to remain healthy, going forward.

The rating is, however, constrained by high tenant and asset concentration risks. About 84% of the total leasable area is currently leased out to Wockhardt Limited (~77% of the leasable area at BKC and 100% of the leasable area at Aurangabad), exposing the company to significant tenant concentration risk. Furthermore, the BKC property generates ~92% of the company's rental revenues, leading to an asset concentration risk. The rating is also constrained by Carol's substantial investments/ loans and advances amounting to ~Rs. 1,185 crore in group companies and promoter entities as on March 31, 2023. The company is not generating any returns from these investments and there are no definite timeline for recovery of these investments, limiting the company's financial flexibility. The company also remains vulnerable to fluctuations in interest rates and occupancy levels, which could affect its debt coverage metrics.

The Stable outlook on the rating reflects ICRA's expectations that the company's credit profile will be supported by the continuation of strong occupancy levels and favourable location of its rental property.

Key rating drivers and their description

Credit strengths

Healthy occupancy and track record of timely rent receipts – The company owns two properties, one at BKC with a leasable area of 1.14 lakh sq. feet and another at Aurangabad with a leasable area of 0.53 lakh sq. feet. Both properties are currently fully occupied. The tenant profile includes reputed corporates such as Wockhardt Limited, Adani Electricity and the Ascendas Group, which reduces the counterparty risk to an extent. The company has a proven track record of timely receipt of rent payments from its existing tenants. Further, the presence of a rent escalation clause in the lease agreements ensures steady growth in rental income over the lease term, providing a cushion against inflation and other market fluctuations.

Favourable location of the property – Of the total leasable area of ~1.67 lakh sq. feet, ~1.14 lakh sq. feet is located at BKC as a commercial office space named, Wockhardt Towers, that currently generates ~92% of the rental revenues for the company. The property's location is at a premium commercial area in the central business district (CBD) of the Mumbai Metropolitan Region (MMR), which further supports the property's value and rental income potential for the company. ICRA expects Carol to benefit from the low vacancy levels and limited upcoming supply in the BKC micro-market.

Healthy debt metrics – The company's debt mainly consists of LRD loan of ~Rs. 432.3 crore as on March 31, 2024. The company's LRD Debt/NOI and DSCR remained comfortable in the range of 5.0-5.5 times and 1.25-1.30 times, respectively, as on March 31, 2024 (as per provisional estimates shared by the company). The debt coverage indicators are expected to remain healthy going forward too, on the back of scheduled repayment of term debt with an estimated five-year (FY2025 to FY2029) average DSCR of 1.30-1.35 times.

Credit challenges

High tenant and asset concentration risks – About 84% of the total leasable area is currently leased out to Wockhardt Limited (~77% of the leasable area at BKC and 100% of the leasable area at Aurangabad), exposing the company to high tenant concentration risk. Although the leased-out space remains critically important for the operations of Wockhardt, any adverse developments affecting Wockhardt's business could significantly impact the company's cash flows and debt coverage metrics. Moreover, the BKC property currently generates ~92% of the company's rental revenues, leading to an asset concentration risk. However, the favourable location of the BKC property mitigates this risk to a certain extent.

Large investments in group companies – The company has substantial investments or loans and advances amounting to ~Rs. 1,185 crore in group companies and promoter entities as on March 31, 2023. These investments were funded through proceeds from partial sale of the BKC property over a decade ago, along with an LRD loan and subsequent top-ups on the same, as well as through internal accruals. Out of these investments, ~37% have been invested in Wockhardt Hospitals and balance into various promoter and group entities. The company is not generating any returns from these investments and there are no definite timeline for recovery of these investments, limiting the company's financial flexibility. ICRA will continue to monitor the investments in group or promoter entities and their impact, if any, on the debt metrics and liquidity position of the company.

Vulnerability of debt coverage metrics to fluctuations in interest rate and occupancy levels – The company's debt coverage metrics remain vulnerable to fluctuations in interest rates and to occupancy levels of the leased-out properties. The weighted average lease expiry (WALE) of the asset is currently ~3.3 years, compared to the remaining debt repayment period of ~13.5 years, exposing the company to lease renewal risk. However, long-term association with its group company, Wockhardt Limited, a major revenue generating tenant, and its consistent track record of lease renewals provides comfort to an extent.

Liquidity position: Adequate

The company's liquidity remains adequate with free cash and bank balances of Rs. 7.7 crore as on July 31, 2024 (apart from DSRA of Rs. 9.5 crore). The company does not have any working capital lines. The company is not expected to incur any major capital expenditure (capex) in the near term and any maintenance capex will be funded through internal accruals. The company has a repayment obligation of Rs. 12.4 crore, Rs. 16.9 crore and Rs. 21.4 in FY2025, FY2026 and FY2027, respectively, for its existing LRD loan. ICRA expects Carol to meet its near-term repayment obligations through its internal accruals derived from rental receipts. Moreover, structural features, such as DSRA covering three month's debt servicing and an escrow mechanism, provide additional comfort.

Rating sensitivities

Positive factors – ICRA could upgrade the company's rating if there is a significant increase in scale of operations while maintaining healthy debt protection metrics.

Negative factors – Negative pressure on the rating could arise if there is a material decline in occupancy levels and/or any delay in timely rental receipts or significant increase in leverage levels, leading to 5-year average DSCR of less than 1.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD)
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Carol; details in Annexure-II.

About the company

Carol Info Services Limited is owned by the Khorakiwala family (promoters of the Wockhardt Group). The company owns two commercial assets with a total leasable area of ~1.67 lakh sq. feet, one at BKC in Mumbai and another at Aurangabad (The Benchmark). Majority of the leasable area for the BKC building is leased out to Wockhardt Limited and remaining area is currently leased out to Adani Electricity and the Ascendas Group. The company's property in Aurangabad is completely leased out to Wockhardt Limited and includes a residential building and a resort. The company has had rental arrangements with Wockhardt Limited for more than 15 years and it continues to be the major revenue generating tenant for the company.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	FY2024*
Operating income	94.6	98.4	102.9
PAT	90.9	86.5	105.9
OPBDIT/OI	93.2%	77.7%	91.4%
PAT/OI	96.1%	87.9%	102.9%
Total outside liabilities/Tangible net worth (times)	0.7	0.7	0.5
Total debt/OPBDIT (times)	4.7	5.4	4.7
Interest coverage (times)	2.3	1.4	2.1

Source: Company, ICRA Research; * Standalone Provisional numbers; 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

Current (FY2025)				Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Aug 22, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loan	Long Term	450.00	[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	FY2024	10.30%	FY2038	450.00	[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

Company Name	Ownership as on March 31, 2023	Consolidation Approach
Banneret Trading Private Limited	100.00%	Full Consolidation
Wockhardt Hospitals Limited	48.36%	Equity Method

Source: Company.

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About ICRA Limited:

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