September 30, 2024

Arnon Builders and Developers Limited: Rating upgraded to [ICRA]AAA(Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	400.00	400.00	[ICRA]AAA (Stable) upgraded from [ICRA]A(Stable)
Long-term Fund-based – Overdraft	15.00	15.00	
Long-term Non-fund based Limits	20.00	20.00	
Total	**435.00**	**435.00**	

**Instrument details are provided in Annexure-I*

Rationale

Rostrum Realty Private Limited (RRPL) is a special purpose vehicle (SPV), which has three wholly-owned subsidiaries namely Aspen Buildtech Limited (ABL), Arnon Builders and Developers Limited (ABDL) and Oak Infrastructure Developers Limited (OIDL), together referred as pooled assets. The debt for the pooled assets has cross collateralisation and cross-default clauses. Further, as a part of the debt structure, the surplus at each SPV will be utilised for debt servicing of the other SPVs, should a need arise.

The rating upgrade of ABDL factors in an increase in occupancy of the pooled assets and consequent improvement in debt protection metrics, along with the favourable change in shareholding. In June 2024, Brookfield India Real Estate Trust (BIRET, rated [ICRA]AAA (Stable)) acquired a 50% stake in RRPL from the Bharti Group, while the remaining 50% continues to be held by the Brookfield Group[1]. The pooled assets hold high strategic importance for BIRET, as they are estimated to contribute 18.2% of gross asset value of BIRET as of March 2024. The company derives strong financial flexibility being part of Brookfield REIT.

The rating action considers an improvement in occupancy levels of the pooled assets to 93% in June 2024 from ~88% in September 2023 and increase in rent rates. Backed by a healthy leasing pipeline, the occupancy is expected to further ramp-up in the near term. This, along with proposed refinancing of the loan with elongated tenure, ballooning repayment structure and lower interest rates (other key terms of the sanction are expected to remain same as the existing one), are expected to improve the debt protection metrics of the pooled assets with estimated total debt/net operating income (NOI) of around 6.5 times as of March 2025 and around 6.0 times as of March 2026 and 5-year average DSCR of 1.58-1.60 times (FY2025-FY2029).

The rating continues to factor in healthy business risk profiles of the pooled assets, which consist of 24.7 lakh square feet (lakh sft) of commercial office leasable space and 8.1 lakh sft of retail space, spread across New Delhi, Gurugram and Ludhiana. The pooled assets have a reputed tenant mix and are in favourable locations with good connectivity enhancing their marketability.

ABDL owns and operates a mixed-use real estate asset, Worldmark 65 (WM65) in Gurugram, with office and retail leasable area of 4.8 lakh sft and 2.7 lakh sft, respectively. The occupancy of WM65 improved to 92% in June 2024 (September 2023: 79%), driven by ramp-up in occupancy of office space.

[1] *Through Metallica Holdings (DIFC) Limited*

The pooled assets remain exposed to the inherent cyclicality in the real estate industry and vulnerability to external factors. The rating notes the vulnerability of debt coverage ratios to factors such as changes in interest rate or material reduction in occupancy levels.

Further, ABDL is exposed to moderate tenant concentration risk as the top five tenants in the office and retail area occupy around 52% and 38% of the leased space, respectively. ADBL is also exposed to geographical and asset concentration risks, which are inherent in companies with a single asset.

The Stable outlook reflects ICRA's opinion that the company would benefit from the stable operations of the pooled assets, reputed tenant profile, expected improvement in the debt protection metrics and strong financial flexibility being part of BIRET.

Key rating drivers and their description

Credit strengths

Strong parentage derived from Brookfield India Real Estate Trust and Brookfield Group – RRPL is held equally by BIRET (rated at [ICRA]AAA (Stable)) and the Brookfield Group, which provide strong flexibility as they have significant experience in the real estate industry. In June 2024, BIRET had acquired a 50% stake in RPPL and its three wholly-owned subsidiaries – ABL, ABDL and OIDL together referred as pooled assets from the Bharti Group, for a total equity consideration of Rs. 1,227.9 crore. The pooled assets hold high strategic importance for BIRET, as they are estimated to contribute 18.2% of gross asset value of BIRET as of March 2024. The company derives strong financial flexibility being part of Brookfield REIT.

Expected improvement in debt protection metrics of pooled assets; cross-collateralised structure with surplus sharing among SPVs lends strength to debt structure – The rating action considers improvement in occupancy levels of the pooled assets to 93% in June 2024 from ~88% in September 2023 and increase in rent rates. Backed by a healthy leasing pipeline, the occupancy is expected to further ramp-up in the near term. This, along with proposed refinancing of the loan with elongated tenure, ballooning repayment structure and lower interest rates (other key terms of the sanction are expected to remain same as the existing one), are expected to improve debt protection metrics of the pooled assets with estimated total debt/net operating income (NOI) of around 6.5 times as of March 2025 and around 6.0 times as of March 2026 and 5-year average DSCR of 1.58-1.6 times (FY2025-FY2029). The debt for the pooled assets has cross collateralisation and cross-default clauses. Further, as a part of the debt structure, the surplus at each SPV will be utilised for debt servicing of the other SPVs, should a need arise.

Favourable locations of pooled assets with reputed tenants – The pooled assets consist of 24.7 lakh sft of commercial office leasable space and 8.1 lakh sft of retail space, spread across New Delhi, Gurugram and Ludhiana. The pooled assets have a reputed tenant mix and are in favourable locations with good connectivity enhancing their marketability. There is healthy track record of operations with diversified tenant profile, including leading multinational and Indian corporates.

Credit challenges

Exposure to moderate tenant and asset concentration risks in ABDL – ABDL is exposed to moderate tenant concentration risk as the top five tenants in the office and retail area occupy around 52% and 38% of the leased space, respectively. Further, ADBL is exposed to geographical and asset concentration risks, which are inherent in companies with a single asset.

Vulnerable to cyclicality and changes in interest rates – The pooled assets remain exposed to the inherent cyclicality in the real estate industry and vulnerability to external factors. Nonetheless, ICRA takes comfort from the healthy occupancy levels of the pooled assets. The rating notes the vulnerability of debt coverage ratios to factors such as changes in interest rate or material reduction in occupancy levels.

Liquidity position: Adequate

The pooled assets have cash and bank balance of Rs. 113.7 crore as on March 31, 2024, and estimated principal repayment obligations of Rs. 17 crore in FY2024 and Rs. 4 crore in FY2025 due to refinancing of existing debt, which can be comfortably serviced through its estimated cash flow from operations. ABDL had cash and bank balance of Rs. 12.3 crore as of March 31, 2024. Its liquidity is supported by the debt structure, wherein each SPV has access to the surpluses of the other SPVs under pooled assets.

Rating sensitivities

Positive factors – NA

Negative factors – Negative pressure on the ratings could emerge if there is a material decline in occupancy or a significant increase in indebtedness for the pooled assets resulting in weakening of debt protection metrics on a sustained basis. Further, any deterioration in the credit profile or weakening of linkages with Brookfield REIT might have a bearing on ABDL's rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology] [Realty - Lease Rental Discounting (LRD)]
Parent/Group support	Parent: Pool of 4 entities namely Rostrum Realty Private Limited (RRPL) and its wholly owned subsidiaries namely Aspen Buildtech Limited (ABL), Arnon Builders and Developers Limited (ABDL) and Oak Infrastructure Developers Limited (OIDL). All the four entities have common lenders and the debt availed by them have a cash flow pooling mechanism, with presence of cross default clauses and surplus sharing. The rating for ABDL has been arrived at by following the analytical steps as given below: 1. An assessment of the standalone credit profile of ABDL. 2. An assessment of the credit profile of the pooled assets by considering consolidated business and financial risk profile of the pooled assets. 3. The final rating for the bank facility of ABDL is arrived at by suitably notching up the standalone rating after duly considering the support from the pooled assets as per the debt structure and the linkages between the standalone entity and the pooled assets.
Consolidation/Standalone	Standalone

About the company

Arnon Builders & Developers Limited was incorporated on March 09, 2006. It is a wholly-owned subsidiary of Rostrum Realty Private Limited (RRPL), which is ultimately owned by Brookfield India Real Estate Trust (50%) and the Brookfield Group (50%). The Brookfield Group acquired Arnon in March 2023, following which the entity was transferred from the Bharti Group to RRPL. At present, Arnon owns and operates a mixed-use real-estate asset with office and retail mall – World Mark Gurgaon (WM 65), with s total leasable area of 7.5 lakh sft including office share of 4.8 lakh sft (63.5%) and retail share of 2.7 lakh sft (36.5%). This asset has been operational since 2019.

Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income	51.8	77.0
PAT	-31.5	-20.7
OPBDIT/OI	70.8%	68.2%
PAT/OI	-60.9%	-26.9%
Total outside liabilities/Tangible net worth (times)	-4.0	-3.7
Total debt/OPBDIT (times)	18.6	13.2
Interest coverage (times)	0.6	0.7

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

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs Crore)**	**Sep 30, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Term loans	Long Term	400.00	[ICRA]AAA (Stable)	05-Oct-23	[ICRA]A (Stable)	-	-	-	-
Overdraft	Long Term	15.00	[ICRA]AAA (Stable)	05-Oct-23	[ICRA]A (Stable)	-	-	-	-
Non-fund based limits	Long Term	20.00	[ICRA]AAA (Stable)	05-Oct-23	[ICRA]A (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Overdraft	Simple
Non-fund based limits	Very 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 loans**	FY2023	-	FY2037	400.00	[ICRA]AAA (Stable)
NA	**Overdraft**	-	-	-	15.00	[ICRA]AAA (Stable)
NA	**Non-fund based limits**	-	-	-	20.00	[ICRA]AAA (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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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