

September 30, 2019

## Keisha Enterprises Pvt. Ltd.: Long-term rating of [ICRA]BBB-(Stable) assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	14.00	[ICRA]BBB-(Stable); Assigned
<b>Total</b>	<b>14.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned rating factors in the favourable warehouse location of Keisha Enterprises Pvt Ltd (KEPL) near Kompally, Hyderabad and its 100% occupancy for the 2.14-lakh sq. ft. warehouse by Fine Tech Corporation Private Limited (FTCPL) with the end-user being Reliance Retail Limited (utilised primarily for Reliance Trends and Fresh operations). The rating draws comfort from its comfortable debt coverage metrics with average DSCR at 1.28 times, minimum DSCR at 1.21 times for the loan tenure and the adjusted debt/rental potential stood at 3.75 times. The rating considers the presence of debt service reserve account (DSRA) equivalent to six months of debt servicing obligation as well as escrow mechanism and extensive experience of the promoters in the warehouse leasing business having developed nearly 0.8 million sq. ft. of warehousing space over the last fourteen years.

The rating is, however, constrained by KEPL's small scale of operations with expected revenue in the range of Rs. 4.0-4.5 crore over the medium term. The rating notes its high asset and tenant concentration, with the single warehouse leased to FTCPL contributing to 100% of the total rental income. Consequently, the company is vulnerable to any delays in rent remittance by the tenant or vacancy of the warehouse. This is partly mitigated with KEPL receiving timely receipt of payments during the past six months. ICRA also notes the intense competition in the highly fragmented warehousing industry dominated by both large and many organised players.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that KEPL will continue to benefit from the extensive track record of promoters in warehouse leasing business and long-term lease agreement with FTCPL for 15 years for entire leasable area.

### Key rating drivers

#### Credit strengths

**Experienced promoters in warehouse leasing business** – The promoters have been in warehouse leasing business for the last 14 years and the promoter group had leased a total warehousing capacity of 0.8 million sft, while 1.0 million sft is under development at present.

**Favourable location of warehouse and reputed tenant profile** – The warehouse is located near Kompally, Hyderabad, which is near to Outer Ring Road (ORR) providing easy accessibility. The company has lease agreement with FTCPL for its entire leasable area of 2,14,365 sft and the warehouse is used by Reliance Retail Ltd for Trends and Fresh operations.

**Adequate leverage and coverage metrics** – The debt coverage metrics remained adequate with average DSCR at 1.28 times, minimum DSCR at 1.21 times for the loan tenure and the adjusted debt/rental potential stood at 3.75 times. The long-term lease agreement with FTCPL is for 15 years for the entire leasable area. The company maintains six months'

equivalent repayment (principal + interest) amount in the form of FDs with the bank. As on March 31, 2019, the FD outstanding with the bank was Rs. 1.37 crore. It maintains an escrow account with the bank and the lease rentals flow into this account and principal and interest are serviced from this account. The surplus amount is transferred to KEPL's current account.

## Credit challenges

**Small scale of operations and moderate profitability** – The scale of operations is small with expected revenue in the range of Rs. 4-4.5 crore, as the company has a single warehousing facility with leasable area of 2,14,365 sft. The operating margin remained moderate at 66% for FY2019 and is expected to be less than 80% going forward, as KEPL pays land lease rentals to its lord, which accounts for ~17% of revenue.

**High asset and tenant concentration** – The company faces high asset and tenant concentration risks, as it operates only one facility and the entire facility is leased out to single tenant FTCPL. The lock-in period was for 12 months and the same was completed by June 2019 and FTCPL has an option to terminate the lease with three months' notice period. However, the risk of termination is mitigated with FTCPL investing significant amount for internal infrastructure in the warehouse.

**Intense competition in warehousing industry** – The warehousing industry is highly competitive in nature, dominated by both large and many organised players.

## Liquidity position: Adequate

The company's liquidity position remains adequate, with sizeable cash reserves (Cash + encumbered) to meet debt obligations over the near term. The company has a Debt Service Reserve Account (DSRA) account with the bank and has Rs 1.37 crore (covering six months principal +interest) in the form of fixed deposits(FD) as on March 31, 2019. With the company not having any capital expenditure plans over the medium term, its liquidity profile is expected to remain adequate.

## Rating Sensitivities

**Positive triggers** – ICRA could upgrade the KEPL's rating if the leverage and coverage metrics improve with the cash surplus being utilised to accelerate debt repayment. Specific credit metrics that could lead to an upgrade of KEPL's rating include 1) Debt/Rental Potential below 3.5 times on a sustained basis and 2) DSCR greater than 1.3 times on a sustained basis.

**Negative triggers** – Negative pressure on KEPL's rating could arise if there is delay in rental receipts from tenant, renegotiation of lease at substantially lower rate. Any sustained pressure on revenues and earnings, owing to loss of key customer could have an adverse impact on the company's overall financial performance. A weakening of DSCR to below 1.1 times on a sustained basis could also exert negative pressure on the rating.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Debt Backed by Lease Rentals</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

## About the company

Incorporated in 2017, KEPL is a special purpose vehicle (SPV) formed by Zeromile Warehousing Private Limited for construction and leasing of warehouse. KEPL had constructed a 2,14,365 sft warehouse near Kompally, Hyderabad. The warehouse had been leased to FTCPL and is used by Reliance Retail Limited for its warehousing requirements (utilised primarily for Reliance Trends and Fresh operations). The warehouse was constructed at a cost of ~Rs. 19.70 crore, which was funded by Rs. 14.00-crore term loans, Rs. 4.00 crore of unsecured loans from promoters and the remaining by customer security deposits. The warehouse was completed in two phases: phase 1 of 1,10,409 sft on August 1, 2018 and phase 2 of 1,03,956 sft on December 1, 2018.

## Key financial indicators

	FY2019*
Operating Income (Rs. crore)	1.8
PAT (Rs. crore)	0.1
OPBDIT/ OI (%)	65.8%
RoCE (%)	8.4%
Adjusted Total Debt/ TNW (times)	-238
Total Debt/ OPBDIT (times)	15.2
Interest Coverage (times)	1.6

\* Provisional; Source: Annual Reports and ICRA research

## Status of non-cooperation with previous CRA: Not Applicable

## Any other information: None

## Rating history for last three years

Current Rating (FY2020)			Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 30-September 2019	Date & Rating in	Date & Rating in	Date & Rating in
					FY2019	FY2018	FY2017
1 Fund Based – Term Loans	Long Term	14.00	13.51	[ICRA]BBB- (Stable)	-	-	-

## Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	March 2018	-	June 2028	14.00	[ICRA]BBB- (Stable)

Source: Keisha Enterprises Pvt. Ltd.

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