

August 20, 2020

Breal Estate One Private Limited: Ratings reaffirmed

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	61.00	[ICRA]BB+ (Stable); Reaffirmed
Total	61.00	61.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of Breal Estate One Private Limited’s (BEPL) rating continues to take comfort from the fact that the company is a part of the J.M. Baxi Group, which has interests in shipping, logistics and warehouse services. The demonstrated financial support provided by the promoters by way continuous and timely infusion of preference capital and unsecured loans to meet its debt servicing obligations also supports the rating. The rating reaffirmation also considers the maintenance of funds in debt service reserve account (DSRA) equivalent to three months of principle and interest obligation as per the debt covenants, thereby providing liquidity support. ICRA also takes comfort from the favourable location of the commercial property in Sector 136, Noida, in close proximity to Greater Noida expressway and the metro line, which should aid in attracting tenants.

However, the ratings remain constrained by the low occupancy levels at 50.7% (entirely occupied by Group companies) as on date, and delays in receipt of rentals from the Group companies, primarily owing to Covid-19, which if continued, can exert pressure on the cash flows and the debt servicing ability of the company. The ability of BEPL to tie-up leases for the remaining portion remains critical to meet its debt servicing obligations. Further, the low rental receipts have led to weak coverage metrics, necessitating the dependence on the sponsor’s support. Continuous and timely support from its promoters will be crucial for servicing its debt obligations in a timely manner. Further, the company is exposed to asset-concentration risk due to the single property portfolio and limited track record of cashflows.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA’s opinion that BEPL will continue benefit as a part of the J.M. Baxi Group with demonstrated funding to support its financial obligations.

Key rating drivers and their description

Credit strengths

Support from strong promoter Group with extensive experience – BEPL is a part of the J.M. Baxi Group of Companies, one of the leading end-to-end logistics players in the country with a long operating history. The promoters have demonstrated support by way of continuous and timely infusion of funds via unsecured loans or preference capital to meet its debt servicing obligations.

Operational property with favourable location – The project achieved commercial operations in October 2018, thereby eliminating execution risk. The property is located at the commercial business district of Sector 136, Noida.

This is favourable for the company as the location is in close proximity to the Noida-Greater Noida expressway as well as the metro station and hence, has the ability to attract tenants.

Credit challenges

Weak cash flows result in high dependence on sponsor – BEPL’s cash flows from rentals are lower than its debt servicing obligations. Low rental receipts have led to weak coverage metrics, necessitating dependence on the sponsor to meet its debt servicing obligations.

Modest occupancy levels with only Group tenants and delays in rental receipts from some tenants – The occupancy levels of the commercial property remain low at ~50.7% and with all the current tenants being Group companies. No lease arrangements have been signed with external parties yet. Further, there have been delays in payment of rent by a few Group companies, primarily owing to Covid-19, which if continued, can exert pressure on the cash flows and the debt servicing ability of the company. BEPL’s ability to tie-up leases for the remaining portion remains critical to meet its debt servicing obligations. The low occupancy levels in the property is a credit concern as it might necessitate increased support from the promoters

High asset-concentration risk – BEPL is exposed to asset-concentration risk due to its single property portfolio. Intense competition in the Noida commercial market, as marked by various commercial spaces within 5 km, adds to the woes.

Liquidity position: Stretched

BEPL’s liquidity is **stretched** as characterised by its dependence on promoters to service its debt obligations. The company’s cash flows are lower than its debt servicing obligations as on date. It also has low cash and cash equivalents as on March 31, 2020. However, the presence of DSRA equivalent to three months of principle and interest obligation provides comfort. Continuous and timely support from its promoters will be crucial to support liquidity and for timely servicing of its debt obligations.

Rating sensitivities

Positive triggers – ICRA could upgrade BEPL’s ratings if the company’s occupancy increases significantly, making its cash flows self-sustaining in servicing its debt obligations.

Negative triggers – Any delay in timely support from the J. M. Baxi Group to service debt obligations may result in a ratings downgrade. ICRA could also downgrade BEPL’s ratings if there is a decrease in its occupancy rates, or if there are significant delays in receiving its rental payments owing to Covid-19. Deterioration of the credit profile of the J. M. Baxi Group could also put downward pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Part of the J. M. Baxi Group; financial support from promoter/Group entities is factored in to meet cash flow deficit in debt servicing
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity.

About the company

Incorporated in 2006, BEPL (formerly known as Richa Cottex Private Limited) was involved in manufacturing textiles. Subsequently, it ventured into commercial office development space and constructed a Grade-A building in the Sector 137, Noida. The property has multi-level basement parking with 14 floors and a total built-up area of 1,11,833 sq ft.

BEPL is a part of the Mumbai-based J. M. Baxi Group, which was established by three individuals—Mr. Baxi, Mr. Jayantilal Kotak and Mr. Manilal Kotak. The Group has a history of 100 years in the shipping-logistics sector. It is currently managed by Mr. Krishna Kotak, Mr. Dhruv Kotak and Mr. Vir Kotak, who have extensive experience in the shipping-logistics business. BEPL's equity shares are held by Arya Offshore Services Private Limited, while K Steamship Agencies Private Limited has also invested in BEPL in the form of preference capital.

Key financial indicators (audited/provisional)

	FY2019	FY2020*
Operating Income (Rs. crore)	3.6	8.2
PAT (Rs. crore)	-2.6	-5.4
OPBDIT/OI (%)	57.2%	51.4%
PAT/OI (%)	-71.7%	-66.7%
Total Outside Liabilities/Tangible Net Worth (times)	3.6	3.3
Total Debt/OPBDIT (times)	29.9	14.5
Interest Coverage (times)	0.8	0.6

*Provisional financials for FY2020

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding as on March 31, 2020	Rating	FY2020	FY2019	FY2018
					20-Aug-2020	31-May-2019	16-Apr-2018	-
1	Fund-based/Cash Credit	Long Term	61.00	55.76	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-

Amount in Rs. crore

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 [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term – Fund-based/Term Loan	Jan 2019	NA	FY2028	61.00	[ICRA]BB+ (Stable)

Source: BEPL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Analyst Contacts

K. Ravichandran
+91-44-45364301
ravichandran@icraindia.com

Manish Ballabh
+91-124-4545812
manish.ballabh@icraindia.com

Vipin Jindal
+91-124-4545355
vipin.jindal@icraindia.com

Jayesh Ghosh
+91-124-4545392
jayesh.ghosh@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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