

Apeejay House Private Limited

September 25, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based- Term Loan	80.0	[ICRA]A-(Stable); Assigned
Fund Based- CC Limits	20.0	[ICRA]A-(Stable); Assigned
Total	100.0	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 80.0-crore¹ term loan and Rs 20.0 crore cash-credit limits of Apeejay House Private Limited (AHPL)². The outlook on the long-term rating is Stable.

Rationale

The rating favourably factors in the attractive location of the property due to its good connectivity and proximity to prime commercial hub in Kolkata leading to high occupancy of around 95-96%, long-term lease agreement with reputed clients for the external leased area, ensuring steady cash flows as well as low tenant concentration risk with top-5 clients occupying 37% of the total external leasable area. While assigning the rating, ICRA has further considered the extended repayment schedule of ten years with ballooning structure for the contracted loans. The rating is also supported by AHPL's financial flexibility for being a part of the Apeejay Surrendra Group, which has diversified business interests in shipping, hotels, tea and real estate.

The rating, however, also factors in high asset concentration risk, due to its dependence on a single property. Given the absence of a debt-service reserve account (DSRA) and limited surplus, excess of rent receipt vis-a-vis debt obligation, and timely rent remittance by the lessee would be critical for determining the overall liquidity profile. Such risks are partially offset by the profile of the lessee. While the debt raised has an extended repayment schedule with a ballooning structure, interest-servicing would exert pressure on the overall cash flows of the company. ICRA however draws comfort from the overall financial profile of the Apeejay Group and fungibility of cashflows within different businesses of the Group, thus supporting the debt servicing capability of the company.

Outlook: Stable

ICRA expects that AHPL will continue to earn timely and stable rental income on the back of strong tenant profile, long-term lease period and the presence of lock-in period for its tenants. The outlook may be revised to 'Positive' if the company maintains healthy liquidity (in the form of DSRA or cash and investments) and is able to achieve rental escalation as per the agreements in the future. The outlook may be revised to 'Negative' if the occupancy levels of the property decline or there is any delay in timely receipt of rental income, thereby weakening its liquidity.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Financial flexibility for being a part of the diversified Apeejay Surrendra Group– AHPL derives considerable financial flexibility for being a part of the Apeejay Surrendra Group, which has diversified business interests in shipping, hotels, tea and real estate. The Group also has demonstrated ability to refinance debt at attractive terms, given its established relationship with domestic banks.

Attractive location of the property reduces vacancy risk– The property is strategically located on Park Street, a prime commercial hub in Kolkata, which can be easily accessed from various parts of the city. The benefit of such an attractive location is reflected in high occupancy of around 95-96% in the last few years, occupied by reputed clientele thus also reducing the vacancy risk to a large extent.

Long-term lease agreements as well as sufficient lock-in period with steady escalation for existing clients – AHPL has entered into long-term lease agreements with its customers, typically for nine years, and have a sufficient lock-in period, ensuring steady commitment of cash flow from the leased area. There is a built-in rent escalation clause in most of the external contracts, leading to a steady rental growth. In addition, the tenant base includes various established clients from banks, NBFCs and other corporate houses, reducing counterparty credit risk to a large extent. The tenant concentration is also low with top-five clients occupying 37% of the total external leasable area. Also, a significant portion of the leasable area is occupied by various Group companies reflecting the strategic importance of the property for the Group.

Credit weaknesses

Asset concentration risk as a major portion of the commercial rental income comes from a single property – AHPL owns and operates two commercial properties- in Kolkata and Delhi; however, the Kolkata property comprises around 94-95% of the total operating income during FY2018, leading to high asset concentration risk. However, presence of various commercial properties within the overall Apeejay Group provides comfort.

Delay in rental receipt may impact the liquidity position of the company – Given the absence of a debt-service reserve account (DSRA) and limited surplus, excess of rent receipt vis-a-vis debt obligation, and timely rent remittance by the lessee would be critical for determining the overall liquidity profile. Such risks are partially offset by the reputed-profile of the lessee.

Debt repayment would stretch the cash flow of the company; Group support would be required to meet the debt-obligations- While the debt raised has an extended repayment schedule with a ballooning structure, interest-servicing would exert pressure on the overall cash flows of the company. ICRA, however, draws comfort from the overall financial profile of the Apeejay Group and fungibility of cashflows within different businesses of the Group, thus supporting the debt servicing capability of the company.

Analytical approach: For arriving at the ratings, ICRA has considered the financials of Apeejay Private Limited along with AHPL since there are strong operational linkages between the two companies. Also, the applied rating methodologies are indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Methodology for debt backed by lease-rentals](#)

About the company

Incorporated in 1966, Apeejay House Private Limited (AHPL) is into commercial leasing of property. There are two properties in the company- in Kolkata and Delhi. However, the Kolkata property comprises 96% of the total rental income of the company. The Kolkata property – Apeejay House is located in the prime commercial hub in Kolkata, leading to high occupancy of around 95-96% in the past few years. Also, a significant portion of the leasable area is occupied by various group companies reflecting the strategic importance of the property for the group.

In FY2018, the company reported a net profit of Rs. 2.02 crore on an operating income of Rs.20.63 crore compared to a net profit of Rs. 0.90 crore on an operating income of Rs. 18.02 crore in the previous year.

Key Financial Indicators

	FY 2017 (Audited)	FY 2018 (Provisional)
Operating Income (Rs. crore)	18.02	20.63
PAT (Rs. crore)	0.90	2.02
OPBDIT/ OI (%)	35.58%	40.73%
RoCE (%)	7.94%	8.21%
Total Debt/ TNW (times)	1.39	1.38
Total Debt/ OPBDIT (times)	9.45	7.48
Interest coverage (times)	0.95	1.46
NWC/ OI (%)	187%	156%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating September 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Term Loan	Long Term	80.00	NA*	[ICRA]A-(stable)	-	-	-
2 Cash Credit	Long Term	20.00	NA	[ICRA]A-(stable)	-	-	-

*the amount would be draw-down in phases in the current financial year

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

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 Loan	FY2019	10.0%	FY2026	80.00	[ICRA]A-(Stable)
NA	CC Limits	FY2019	NA	NA	20.00	[ICRA]A-(stable)

Source: Company data

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