

## Mohan Enterprises

February 15, 2019

### Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund Based - Term Loan	564.51	564.51	Reaffirmed at [ICRA]BBB+, with revision in outlook to Stable from Positive
<b>Total</b>	<b>564.51</b>	<b>564.51</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA's rating action considers a consolidated view of Mohan Enterprises (ME) and Kalyani Techpark Private Limited (KTPL). Both the entities are fully held by Mr Mohan Raju and his family and there are strong operational and financial linkages between them.

The reaffirmation of rating and the revision of the outlook to Stable reflects ICRA's expectation that the revenue profile of the Group will stabilise over the near to medium term, with scope for material deleveraging constrained by the pending costs to be incurred on the projects currently under implementation.

The rating considers the timely completion and leasing of the Big Bang project (Towers A and B) to Goldman Sachs. The rentals from Goldman Sachs commenced from April 2018 and the company has converted the construction finance loan availed for the project into a lease rental discounting (LRD) facility. In FY2019, the Group also completed the development and leasing of the Pine building in Kalyani Platina park and added an additional 14 MW of wind generation capacity, whose output will be sold to tenants in the Group's office parks.

The rating continues to derive comfort from the favourable location of the Group's projects in Outer Ring Road east, Kundalahalli and JP Nagar, resulting in close to 100% occupancy across its various assets. The rating draws strength from the reputed tenant profile, which consists of multinational companies. ICRA takes note of the long lease tenures and investments made by the tenants towards fit-outs in most cases, which mitigate vacancy risk to some extent. The rating also derives comfort from the presence of escrow mechanism for all the rated loans, whereby rentals as well as maintenance income and electricity charges are directly deposited into escrow accounts and utilised for debt servicing before release of any surplus cash flows. The rating favourably views the maintenance of debt service reserve account (DSRA<sup>1</sup>) as well as additional liquidity in the form of cash balances that are earmarked towards supporting debt-servicing obligations.

However, the rating is constrained by the high client concentration in the Kalyani Group's portfolio, with the top three tenants occupying 61% of the total leased area across all assets. This exposes the Group to high market risks in case any of these tenants vacate their areas. Nonetheless, ICRA draws comfort from the long-term relationship of the tenants with the Kalyani Group, evident from the fact that they have taken up additional space in the Group's new properties. The rating also takes into account the Group's large-scale planned development, which could increase the leverage level going forward. Nonetheless, it is expected that the Group will develop projects in a phased manner going forward, which can mitigate the risks to some extent. The rating is also constrained to some extent by the increase in debt against the newer assets of the Group, which has led to a tightening of the cash cover. The rating also factors in the vulnerability of debt coverage ratios to factors such as changes in interest rates or reduction in occupancy levels.

<sup>1</sup> While the lender has the right to dip into the DSRA, the rated instrument does not have a DSRA invocation mechanism

## Outlook: Stable

ICRA expects that the business profile of Kalyani Group to remain stable due to the established track record of the Group in the commercial real estate market of Bangalore. The outlook may be revised to Positive if the company scales up its business through development of additional buildings with less reliance on additional debt. The outlook may be revised to Negative if any further leveraging stresses the debt servicing of the company.

## Key rating drivers

### Credit strengths

**Completion and leasing of new projects** - The Kalyani Group has completed the development of the Big Bang project (Towers A and B) in Outer Ring Road (ORR) and the Pine project at Kalyani Platina park in Kundalahalli. The Big Bang project has been leased to Goldman Sachs while the Pine project has been leased out to Molex. The earlier construction finance loan for the development of the Big Bang project has now been converted into LRD facility. The Group is developing another office block at Kalyani Platina Techpark called the Cedar block, which is expected to be completed by March 2019. In FY2019, KTPL also added 14 MW of wind generation capacity, whose output will be sold to tenants in the Group's office parks.

**Favourable location of assets** - The projects of the Kalyani Group are in prime locations that include ORR, Kundalahalli and JP Nagar, resulting in close to 100% occupancy. The tenants of the Kalyani Group include reputed multinational companies such as HP, Goldman Sachs (GS), Oracle and VMWare. The long lease tenures and investments made by the tenants towards fit-outs in most cases mitigate vacancy risk to some extent.

**Proven track record of Kalyani Group** - The Kalyani Group has a track record of more than 20 years in the Bengaluru commercial office space market. The first project of the Group, Kalyani Infotech, was launched in 1998. The Group has a commercial portfolio of close to 34 lakh square feet (sqft) as on date across multiple locations in Bangalore.

**Presence of escrow account and debt service reserve account** - KTPL and ME maintain escrow accounts for the LRD loans in which lease rentals as well as maintenance income and electricity charges are deposited by the clients. The funds in the escrow account are utilised first for debt service before the surplus is moved into the company account. The company also maintains DSRA and additional liquidity in the form of a fixed deposit, which are earmarked towards debt service. The amount deposited in DSRA and additional fixed deposit cover around 3.2 times of current monthly instalments.

### Credit challenges

**High tenant concentration** - The tenant concentration is high with the top three tenants occupying 61% of the total leased area. The single largest tenant, Oracle, occupies 22% of the total leased area. However, the favourable location of the projects, long-lease tenures and competitive prices reduce the vacancy risk.

**High leverage and expansion plans of Kalyani Group** - The Kalyani Group has taken additional debt in FY2018 and FY2019 to set up wind power generating plants and fund the construction expenses of the ongoing projects under development as well as for land investments. Going forward, the Kalyani Group has significant expansion plans, which include a built-to-suit office building for one of the existing tenants as well as towers D and E of the Big Bang project. The total capital expenditure for the projects is around Rs 700 crore, of which around Rs 160 crore has been incurred as on date. The company is expected to fund the remaining costs through a mix of available liquidity and construction finance loan. The debt requirements for the pending capital expenditure will limit the company's ability to materially deleverage the balance sheets in the near to medium term.

**Vulnerability of debt coverage ratios to changes in interest rates and reduction in occupancy levels** - The debt coverage ratios are highly linked to changes in interest rates and reduction in occupancy levels. Any increase in interest rate or decline in occupancy levels might put pressure on the debt coverage metrics.

## Liquidity position

The Kalyani Group has sufficient liquidity in the form of unencumbered bank balances and liquid investments (Rs 150 crore as on October 2018). The Group also maintains DSRA for some of its borrowings. The Group also maintains additional liquidity in the form of deposits with banks, which are earmarked towards debt servicing. The company is expected to fund its upcoming capex through a mix of available liquidity and construction finance loans.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Ratings: A Note on Methodology</a> <a href="#">Rating methodology for debt backed by lease rentals</a>
Parent/Group Support	Not Applicable
Consolidation	For arriving at the ratings, ICRA has consolidated the financials of the various group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them.

## About the company

KTPL was incorporated in 2006 by Mr Mohan Raju and Citi Property Investors India I Ltd. The Raju family subsequently acquired the stake of Citi. The company entered into a joint development agreement (JDA) for 11.14 acre of land at Kundalahalli, near Whitefield, Bangalore. KTPL has developed 9.8 lakh sqft of leasable area in this project which is named as 'Kalyani Platina'. KTPL's share of leasable area is 8.4 lakh sqft. Further in November 2011, KTPL entered into an agreement to develop and lease built-to-suit office space (Big Bang project) with a leasable area of 10.3 lakh sqft (KTPL's share of 6.3 lakh sqft) to GS over 22 acres of land at Varthur Hobli, ORR in Bangalore. The project started execution in February 2015 and has been completed and handed over to GS as on date. The company has most recently developed an office block called Pine with a leasable area of 1.7 lakh sqft in the Kalyani Platina Techpark. The building has been leased out to Molex. At present, the company is developing additional office blocks in the Big Bang project, which will have a total leasable area of 11.5 lakh sqft (company's share of 7 lakh sqft).

ME was incorporated in 1991 as a partnership firm with the object of, inter alia, real estate business. The firm started with the development of a marriage hall - 'Kalyani Kala Mandir' - at Bannerghatta Road, Bangalore. In 1998, the firm entered into real estate development business and developed its first software park, 'Kalyani Infotech' with 3.8 lakh sqft at Bannerghatta Road and leased it to Honeywell Software Solution Lab Pvt Ltd (Honeywell). In 2009, the firm completed the development of 8.5 lakh sqft of commercial office space called 'Kalyani Magnum' at JP Nagar. During the past five years, the firm has completed construction of another 11.9 lakh sqft of commercial office space spread across multiple buildings. The firm is presently developing an office block, Cedar building, with a leasable area of 2.6 lakh sqft in the Kalyani Platina Techpark as well as a built-to-suit office block (Vista-2) with a leasable area of 6.2 lakh sqft for one of its existing tenants.

## Key financial indicators

	<b>FY2017 Audited</b>	<b>FY2018 Audited</b>
Operating Income (Rs. crore)	251.1	358.7
PAT (Rs. crore)	59.2	71.7
OPBDIT/OI (%)	75.1%	56.0%
RoCE (%)	16.1%	15.4%
Total Debt/TNW (times)	3.4	3.7
Total Debt/OPBDIT (times)	6.2	7.1
Interest Coverage (times)	2.1	1.8
NWC/OI (%)	-79%	-48%

**Status of non-cooperation with previous CRA: Not available**

**Any other information: None**

## Rating history for last three years:

Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2018			Date & Rating in FY2017	Date & Rating in FY2016
				February 2019	March 2018	August 2017	September 2016	November 2015	
1 Term Loan	Long Term	564.51	564.51	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[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 Loan – I	July 2015	-	June 2027	152.36	[ICRA]BBB+ (Stable)
NA	Term Loan – II	January 2017	-	November 2028	118.82	[ICRA]BBB+ (Stable)
NA	Term Loan – III	February 2014	-	May 2021	1.50	[ICRA]BBB+ (Stable)
NA	Term Loan – IV	February 2017	-	January 2029	291.83	[ICRA]BBB+ (Stable)

Source: Mohan Enterprises

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Kalyani Techpark Private Limited	100.00%	Full Consolidation
Mohan Enterprises	100.00%	Full Consolidation

## ANALYST CONTACTS

**Shubham Jain**

+91 124 4545306

[shubhamj@icraindia.com](mailto:shubhamj@icraindia.com)

**Mathew Kurian Eranat**

+91 80 4332 6415

[mathew.eranat@icraindia.com](mailto:mathew.eranat@icraindia.com)

**Nishant Mishra**

+91 80 4332 6408

[nishant.mishra@icraindia.com](mailto:nishant.mishra@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

### 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](http://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](mailto:info@icraindia.com)

Website: [www.icra.in](http://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

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents