

May 31, 2019

## Breal Estate One Private Limited: Rating reaffirmed at [ICRA]BB+(Stable)

### Summary of rated instruments

Instrument*	Previously 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
<b>Total</b>	<b>61.00</b>	<b>61.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of Breal Estate One Private Limited's (BEPL) rating takes into account the completion of the construction of the project in October 2018, thereby eliminating project implementation risks. 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. The rating continues to take support from BEPL as a part of the J.M. Baxi Group, which has interests in shipping, logistics and warehouse services, and the demonstrated financial support provided by the promoters by way of equity infusion to fund the project cost overruns and shortfall in debt servicing obligations. The rating also continues to take 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. Also, ICRA has taken note that the construction loan availed by BEPL has been converted into a fixed-interest term loan, thereby providing a hedge against the interest rate risk.

The rating, however, is constrained by the low occupancy levels at 51.5% (entirely occupied by Group companies) as on April 30, 2019, and delays in receipt of rentals from its Group companies. Although the delays in rental receipts have reduced from ~32 days in October 2018 to ~12 days in April 2019, the ability of the company 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 as reflected by the expected DSCR of 0.91 times in FY2020, necessitating the dependence on the sponsor's support. Further, the company is exposed to asset-concentration risk due to the single property portfolio and limited track record of cashflows with an operational history of only eight months.

### Outlook: Stable

ICRA believes that Breal Estate One Private Limited (BEPL) will benefit as a part of the J.M. Baxi Group with demonstrated equity funding to support its operational and financial obligations. The outlook may be revised to Positive if the company is able to significantly improve its occupancy and generate adequate operational cash flows to meet the debt servicing requirement. The outlook may be revised to Negative if the company's occupancy levels remain subdued for a prolonged period of time, or in case the delays in rental receipts continue beyond the stipulated due date, thereby exerting pressure on its cash flows.

### Key rating drivers

#### 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 equity to the tune of Rs. 44.0 crore to fund the project cost overrun and Rs. 4.30 crore in FY2019 to meet BEPL's 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.

**Liquidity support from DSRA and hedge against interest rate risk** – As per the terms of the sanction letter, the company is required to maintain DSRA equivalent to three months of principle and interest obligation. It has maintained the required DSRA, which provides liquidity support. Further, it is hedged against interest rate risk, given that the entire construction loan has been converted into a fixed interest term loan converting the floating interest rate into a fixed rate contract.

## Credit challenges

**Weak cash flows result in high dependence on sponsor** – Low rental receipts have led to weak coverage metrics as reflected by low projected DSCR of 0.91 times in FY2020 despite assuming an increase in occupancy, thereby 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 ~51.5% 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, which if continued, can exert pressure on the cash flows and the debt servicing ability of the company. Although the quantum of delays has reduced considerably in the last few months (from the average delay of 32 days in October 2018 to 12 days in April 2019), the company'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.

**Limited track record** – The company has achieved commercial operations date (COD) on October 1, 2018 for its commercial property and has an operational track record of eight months.

## Liquidity position

The liquidity position remains tight with low operational surplus, given the weak occupancy levels to service its principle and interest (P+I) obligations. However, the promoters have supported liquidity by way of unsecured loans of Rs. 1.50 crore and preference capital of Rs. 2.80 crore as on March 31, 2019, which was primarily used for debt servicing.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Debt Backed by Lease Rentals (LRD-Lease Rental Discounting Loans)</a> <a href="#">Parent subsidiary support</a>
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	Standalone

## 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 KSteamships Private Limited has also made investment in BEPL in the form of redeemable preference capital.

## Key financial indicators (Audited)

Not applicable

## Status of non-cooperation with previous CRA:

Not applicable

## Any other information: None

## Rating history for last three years

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					May 2019	April 2018	-
<sup>1</sup> Term Loan	Long Term	61.00	61.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (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 facilities	Jan 2019	9.15%	FY2026	61.00	[ICRA]BB+ (Stable)

Source: Company

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

Not applicable

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