

Press Release

Karle Infra Private Limited

March 31, 2020

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Bank Facility – Lease Rental Discounting	730.00 (Enhanced from Rs. 100.00 Crore)	IVR BBB+/ Stable Outlook (IVR Triple B Plus with Stable Outlook)
2.	Proposed Long Term Bank Facility – Proposed Lease Rental Discounting*	630.00	Provisional IVR BBB+/ Stable Outlook (Provisional IVR Triple B Plus with Stable Outlook)
	Total	1360.00	

*Proposed Facility to have more or less similar terms & conditions as the existing LRD.

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from stable cash-flow from lease rentals backed by healthy occupancy with diversified clientele, strategic location of the project, escrow with waterfall mechanism supported by maintenance of DSRA and Hub-4 expected to be operational by Q3FY21. However, the rating strengths are partially offset by exposure to lease contract renewal or sudden exit of large tenants impacting cash-flows.

Key Rating Sensitivities

Upward Factors

- Scheduled completion of Hub 4 along with achieving expected occupancy.
- Conversion of term loan to LRD.
- Optimum occupancy of existing Hub along with scheduled rent escalation collectively leading to improvement in debt protection metrics.

Downward Factors

- A fall in occupancy and/or average rental rate from existing Hub and lesser than expected occupancy of Hub 4 leading to deterioration in debt protection metrics

Key Rating Drivers with detailed description

Key Rating Strengths

Stable cash flow from lease rentals, supported by healthy occupancy with diversified clientele:

The company has a total leasable area of 9.58 lakh square feet pertaining to two of its already constructed commercial building named, HUB 1 & HUB 2. Presently, the entire area is leased out to moderately diverse client base of around 14 clients with major client being Conversant Software, HCL Technologies, Concentrix, Epsilon, Diageo Business etc. There is a well-structured lease structure placed in with lock-in period, notice period and an in-built revenue escalation clause for most of its tenants.

Strategic location of the project:

The property benefits from its distinguished location of being in a Special Economic Zone (SEZ), giving it a competitive advantage and operational synergies. The tenants enjoy indirect tax exemptions, a certain income-tax holiday and other financial benefits out of office spaces in the SEZ commercial place. Further, there are no major SEZs in and around the project, which is an added advantage for the company.

Escrow with waterfall mechanism backed by maintenance of DSRA:

As per sanctioned terms, the company draws comfort from the escrow mechanism through which cash flows from lease rentals are routed and used for payment as per defined payment waterfall. The company also maintains debt service reserve account (DSRA) equivalent to two-three months interest and principal with the bank in the form of fixed deposit with the bank. The amount in the DSRA would be utilised only in case of a shortfall in cash flows for meeting debt service requirements from time to time.

Hub-4 expected to be operational by Q3FY21:

The company is undertaking construction of commercial space 'HUB 4' and a residential apartment 'Pinnacle'. HUB 4 is the third commercial project, apart from HUB 1 & HUB 2, which is under construction for generating lease rentals. The total leasable area is to be around 7.95 lac sq. ft., of which the company has already received Letter of Intent (LOIs), Hard Options, ATL & Term Sheet for almost 70% of the total space from the existing and new tenants. The total project cost is Rs. 580.31 Crore, funded by a mix of Debt & equity of

Rs. 404.99 Crore & Rs. 94.20 Crore respectively. The term loan of Rs. 405.00 Crore is to be paid in July 2023 as a bullet repayment. However, HUB 4 will be operational Q3FY21 and the company plans to convert construction loan into LRD once they start generating the lease rentals with a top-up loan of around Rs. 230.00 Crore. Any delay in conversion of term loan to LRD will not affect the liquidity of the company in the near term as the existing term loan needs to be repaid in Bullet by July 2023.

Key Rating Weaknesses

Exposure to contract renewal or sudden exit of large tenants impacting cash-flows:

Major lease agreements made are of long term in tenure of 15 years, with a certain lock-in period. Once the lock-in period is over, the tenant could move out, which can adversely impact the rental inflows. However, this risk is mitigated by the notice period to be served, long-term relationship with various client and strategically well-located area. Also, any unfortunate event may lead to cancellation of contracts and difficulty in finding new tenants at similar terms. Similarly, if any anchor tenants vacate a large area, cash flow can be impacted.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Real Estate entities

Rating Methodology for Structure Debt Transaction (Non securitisation transaction)

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

Liquidity is adequate on the account of lease rental receivables from the existing lease agreements, the surplus of which is moderately adequate to cover the debt repayment obligations.

About the Company

Karle Infra Private Limited (KIPL), is a real-estate and urban infrastructure development company headquartered in Bengaluru, India. With over two decades of experience in developing properties in Bengaluru, Goa and Mysore, the company is now focused on developing a community-centric township named, “Karle Town Centre”. The company (KIPL) has already constructed two commercial leasing properties, named; HUB1, HUB 2,

recording 100% occupancy. Further, another commercial property is under construction (HUB 4) and OC is expected by June 2020.

Financials:

	(Rs. Crore)	
For the year ended/ As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	91.86	129.89
EBITDA	47.15	81.57
PAT	-25.50	-3.73
Total Debt	648.86	786.65
Tangible Net-worth	247.12	240.52
EBITDA Margin (%)	51.33	62.80
PAT Margin (%)	-27.76	-2.87
Overall Gearing Ratio (x)	2.63	3.27

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:CARE has moved the rating of Karle Infra Private Limited into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure as per the Press Release dated February 28th, 2020.

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (17/03/20)	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan – LRD Facility	Long Term	730.00 (Enhanced from 100.00)	IVR BBB+/ Stable Outlook	IVR BBB+ / Stable Outlook	--	--
2.	Proposed Long Term Bank Facility – Proposed Lease Rental Discounting	Long Term	630.00	Provisional IVR BBB+/ Stable Outlook			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan – LRD Facility	NA	NA	Dec 2034	730.00 (Enhanced from 100.00)	IVR BBB+/ Stable Outlook
Proposed Long Term Bank Facility – Proposed Lease Rental Discounting	NA	NA	NA	630.00	Provisional IVR BBB+/ Stable Outlook