



Press Release

Karle Properties

April 05th, 2021

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned
1.	Long Term Bank Facility – Lease Rental Discounting (LRD)	54.50	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
	Total	54.50	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the above-mentioned bank facilities of Karle Properties derives strength from experienced promoters and management team, steady flow of lease rentals, maintenance of DSRA and Escrow mechanism. The rating however is constrained by uncertainty related to finalization of unleased portion, renewal risk of Master Lease Agreements.

Key Rating Sensitivities:

Upward Factor

- None, as the rating assigned is based on strength of LRD wherein present & future cash flows is taken into consideration along with other terms & conditions.

Downward Factor

- Any company related and/or external factor leading to less than projected cash flows will lead to a rating downgrade.

Key Rating Drivers with detailed description

Key Rating Strengths

- **Experienced promoters and management team:**

Karle Properties forms a part of the Bengaluru based Karle Group of Companies. The Group has extensive exposure in the real estate industry throughout Bengaluru and Goa. The business risk profile of the Firm will continue to benefit from established track record of the Group, experience of the promoters and professional management.



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- ***Steady flow of lease rentals:***

Karle Properties has leased out its premises at Old Airport Road, Bengaluru to 3 tenants and receives steady cash flow in the form of monthly lease rentals. The lease agreement ranges between 5-10 years which can further extended for 5 years. Apart from the rentals, the lessees are required to share common area maintenance & fit-out charges for the commercial place. Steady lease flow of rentals during the Covid-19 were observed, as seen from its sustained total operating income of INR6.25 Crore in 9MFY21 (Unaudited) as against INR6.10 Crore in 9MFY20 (Unaudited). The location is in close-proximity to railways & bus station which is an added advantage for gaining future demands.

- ***Maintenance of DSRA and Escrow mechanism:***

As per the terms of sanction, there is an escrow account mechanism in place as per which all rent receivables are to be directly deposited into the escrow account and utilized first for debt servicing before release of any surplus cash flows. The presence of an escrow mechanism provides comfort in the form of restricting cash flow fungibility. Furthermore, the company maintains debt service reserve account (DSRA) equivalent to three equated monthly instalment (EMI).

Key Rating Weaknesses

- ***Uncertainty related to finalization of unleased portion:***

Given the single-asset nature of business operations and consequent lack of alternative cash flow sources, the Firm is dependent on timely rent remittance by the lessee to meet its debt-servicing obligations. Also, partners' ability to rope in a potential tenant at the earliest for its vacant space has to be ascertained. Further, the unleased portion creates uncertainty to the projected cash flows. However, the management is in advanced talks with potential tenants, and is expected to finalize it before May 2021.

- ***Renewal risk of Master Lease Agreements:***

The lock-in period ranges between 30-36 months after which the clients can move out by serving the notice period. Though, the Firm's financial risk profile has not been impacted severely by the Covid-19 pandemic, going forward, the Firm's ability to avoid any premature



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termination of lease agreements is to be seen. Timely renewal of agreements will remain a key sensitivity over the medium term.

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Structure Debt Transaction (Non- securitisation transaction)

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The company has an adequate liquidity position. The future cash flow seems adequate to meet the debt obligations. The LRD facility is backed by an escrow arrangement and stipulates maintenance of Debt Service Reserve Account (DSRA) equivalent to 3 month's Principal + Interest.

About the Company

Forming part of the Bengaluru based Karle Group of Companies, Karle Properties is a real estate development and commercial space construction firm established in 1994. The partnership firm is run under the leadership of Mr Sudarshan Karle, Mr. Mahendra Karle & Mr. KS Prasanna. The Firm derives lease rental income from its commercial property named Karle Premium, located at Bengaluru, Old Airport Road. Out of the total leasable area of 66,128 square feet, presently the premise is occupied by 3 tenants, accounting to 50,168 square feet, while 15,960 square feet of area being vacant.

Financials:

Financials: Karle Properties (Standalone)

(INR Crore)

For the year ended/ As On*	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	6.55	7.22
EBITDA	4.70	3.80
PAT	2.62	2.39
Total Debt	53.79	62.16
Partners' Capital	(12.95)	9.02
EBITDA Margin (%)	73.92	53.56
PAT Margin (%)	39.99	33.06



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Overall Gearing Ratio (x)	NM	6.90
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* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Bank Facility – Lease Rental Discounting (LRD)	Long Term	54.50	IVR BBB- /Stable	--	--	--

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	Size of Facility (INR Crore)	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Rating Assigned/ Outlook
Long Term Bank Facility – Lease Rental Discounting (LRD)	54.50	NA	NA	February 2034	IVR BBB-/Stable