February 24, 2023

Anamudi Real Estates LLP: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term Loans	347.00	347.00	[ICRA]A+ (Stable); Reaffirmed
Unallocated	3.00	3.00	[ICRA]A+ (Stable); Reaffirmed
Total	**350.00**	**350.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Anamudi Real Estates LLP (AREL) factors in the firm's position as one of the holding companies of the Godrej Group. It is 100% owned by the Godrej family, which runs a large, diversified Indian conglomerate. Over the recent years, AREL's investment book has gradually expanded. As on December 31, 2022, the firm's investment book (including loans and advances to Group companies) stood at Rs. 1,132 crore (around 66% of capital employed), of which Rs. 266 crore was in listed securities. AREL owns 1,83,009 sq ft of leasable area in Godrej One, a commercial property in Vikhroli, Mumbai and 31,249 sq ft of leasable area in Godrej BKC, a commercial property in BKC, Mumbai. The rating draws comfort from the exceptional financial flexibility enjoyed by the firm, given its association with the Godrej Group, the favourable location and the quality of the properties owned by AREL and strong tenant profile.

The rating, however, is constrained by the reduction in the escrowed cash flow (earmarked to service the rated term loan) due to the recent vacancy at Godrej One. As on September 30, 2022, the occupancy for Godrej One (Vikhroli) asset has declined to 29% (81% as on November 30, 2021) as one of the tenants vacated the premises. Consequently, the debt coverage indicators have weakened and are expected to remain under pressure in the near term. Nonetheless, the other unencumbered cash flow sources, such as rental inflows from Godrej BKC, dividend income and sale proceeds from other investments provides comfort. Further, debt service reserve account (DSRA) equivalent to three months' principal and interest obligations provides liquidity buffer. Moreover, the partners/other Group entities are likely to provide funding support if need arises, as demonstrated in the past. Going forward, the increase in occupancy levels would be critical for improving its debt coverage indicators. The tenant concentration risk also remains high at both Godrej One and Godrej BKC properties.

In addition, in the backdrop of the constitution of the firm as limited liability partnership (LLP), ICRA notes that any sizeable withdrawals by the partners, any further debt-funded acquisitions by the firm impacting its liquidity profile and coverage indicators, on a sustained basis, would remain a key rating sensitivity.

The Stable outlook reflects ICRA's expectation that the credit profile would be supported by the strong promoter profile, high financial flexibility and the value of investments.

Key rating drivers and their description

Credit strengths

Strong management profile and financial flexibility from being part of the Godrej Group – AREL is 100% owned by the Godrej family, which runs a large diversified Indian conglomerate. The Godrej Group operates in diverse sectors such as real estate, consumer products, industrial engineering, appliances, furniture and financial services. As on December 31, 2022, the partners infused Rs. 279 crore in AREL in the form of interest-free subordinated loans, while the Group companies injected Rs. 400-crore inter-corporate deposits (ICDs). The firm enjoys exceptional financial flexibility by being a part of the Godrej Group.

As on December 31, 2022, the firm's investment (including loans and advances to Group companies) was Rs. 1,132 crore (around 66% of capital employed), of which Rs. 266 crore was in listed securities. Apart from dividend income and interest income on debentures, AREL's investment portfolio supports its financial flexibility.

Attractive location of both the commercial properties – Godrej One is located on the Eastern Express Highway in the suburbs of Vikhroli, which is emerging as an important real estate micro market in Mumbai on the back of a strong infrastructure and urban connectivity. Godrej BKC is a premium commercial property at BKC, Mumbai, which is a key business district. Both the locations are attractive for the existing and prospective tenants.

Credit challenges

High market risk due to moderate occupancy levels and tenant concentration risk – As on September 30, 2022, the occupancy for Godrej One (Vikhroli) declined to 29% (81% as on November 30, 2021) as one of the tenants vacated the office space. The tenant's exit has significantly reduced the escrowed inflows for the lease rental discounting (LRD) loan. Nonetheless, the other unencumbered cash flow sources, such as rental inflows from Godrej BKC, dividend income and sale proceeds from other investments provides comfort. Further, DSRA equivalent to three months' principal and interest obligations provides liquidity buffer. The largest tenant at Godrej One, and Godrej BKC occupy 75% and 51% of the leased area, respectively. Thus, the tenant concentration risk remains high.

Deterioration in debt protection metrics – The debt servicing coverage ratio (DSCR) has weakened, led by the vacancy at Godrej One (Vikhroli) asset. While the DSCR is expected to be under pressure till there is recovery in occupancy, the liquidity cushion available in the form of unencumbered free cash of Rs. 14 crore provides comfort. Moreover, the partners/other Group entities will be willing to provide funding support if need arises, as demonstrated in the past.

Liquidity position: Adequate

As on December 31, 2022, AREL had free cash and bank balance worth Rs. 14 crore. Given the steep decline in occupancy at Godrej One, the cash flow from operations are inadequate to meet the debt obligations. The liquidity position is, however, supported by the existing on-balance sheet cash of Rs. 14 crore, DSRA equivalent to three months' EMI as well as unencumbered rental income from Godrej BKC. Moreover, the partners/ other Group entities will be willing to provide funding support if need arises, as demonstrated in the past.

Rating sensitivities

Positive factors – A rating upgrade is unlikely in the medium term. Nonetheless, any significant and sustained reduction in external debt resulting in Total Debt/market value of the listed investments of below 15%, on a sustained basis, will lead to an improvement in the rating.

Negative factors – Negative pressure on AREL's rating could arise if there is longer-than-expected period of large vacancy and/or if there is significant increase in the external debt in relation to the market value of investments. Decline in cumulative DSCR below 1.25 times, on a sustained basis, may warrant a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Holding companies Rating Methodology – Lease Rental Discounting Considering AREL's increase in investment book and role as a holding company for some of the Godrej Group's key investments ICRA has applied methodology for assessing the rating to "Rating Methodology - Holding companies" in addition to "Rating Methodology - lease rental discounting".
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

AREL is a 100% Godrej family-owned entity. It was formed on March 12, 2014 by converting the erstwhile Anamudi Real Estates Limited into a limited liability partnership. As on December 31, 2022, the firm's investment (including loans and advances to Group companies) was Rs. 1,132 crore, of which Rs. 266 crore was in listed securities (i.e., Godrej Industries Limited and Sobha Ltd), with a market value of around Rs. 600 crore (of which ~Rs. 540 crore corresponds to Sobha Ltd). Additionally, AREL owns 1,83,009 sq ft of leasable area in Godrej One, a commercial property in Vikhroli, Mumbai and 31,249 sq ft of leasable area in Godrej BKC, a commercial property in BKC, Mumbai.

Key financial indicators

AREL	FY2021	FY2022
Operating income	55.7	50.7
PAT	77.0	279.7
OPBDIT/OI	76.5%	76.7%
PAT/OI	138.2%	551.6%
Total outside liabilities/Tangible net worth (times)	5.4	2.1
Total debt/OPBDIT (times)	31.2	26.2
Interest coverage (times)	0.8	0.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore
Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2023)			Chronology of rating history for the past 3 years				
	Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
				Feb 24, 2023	Jan 14, 2022	Mar 16, 2021	Dec 08, 2020	Jan 31, 2020
1 Term loans	Long term	347.00	334.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2 Unallocated	Long term	3.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term Loan	Simple
Long-term – Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Long-term – Fund-based – Term Loan**	FY2021	-	FY2036	347.00	[ICRA]A+ (Stable)
-	**Long-term – Unallocated**	-	-	-	3.00	[ICRA]A+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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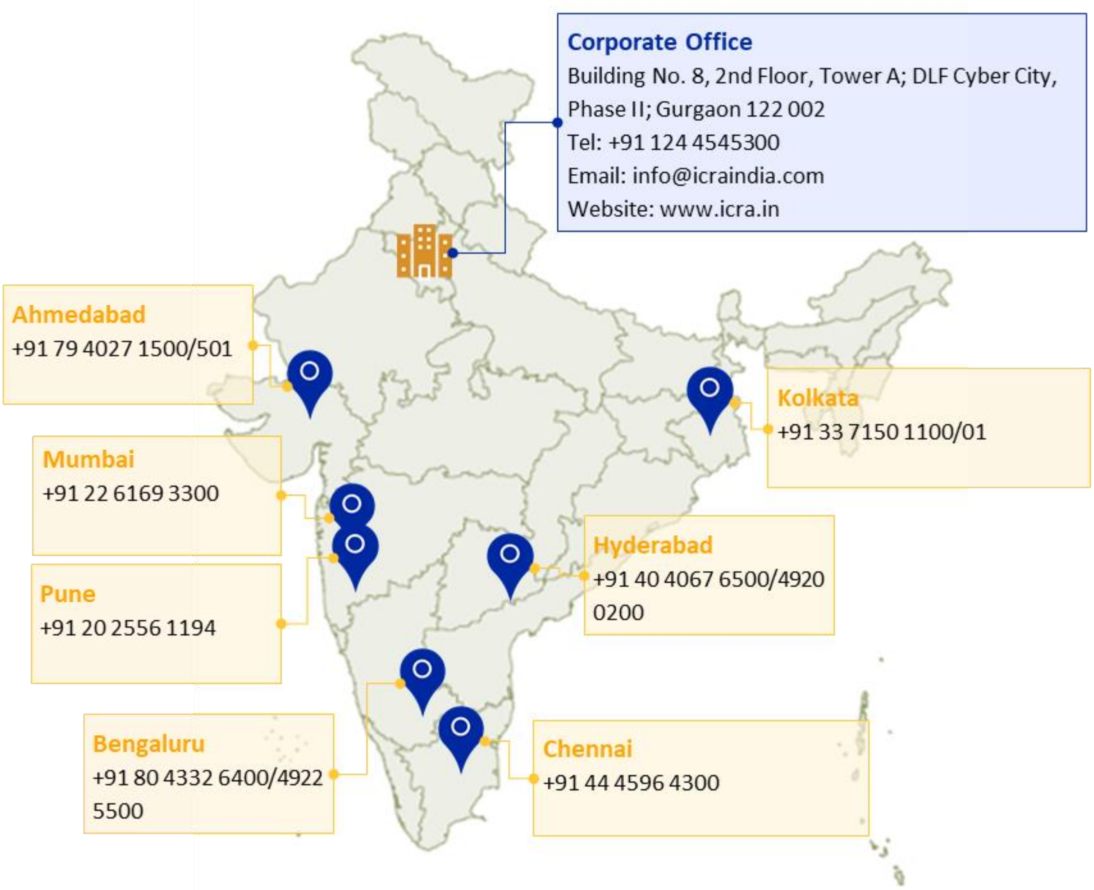

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