

April 04, 2023

## Gopalan Enterprises (India) Pvt. Ltd: Rating upgraded to [ICRA]A- (Stable)

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	457.59	298.90	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
<b>Total</b>	<b>457.59</b>	<b>298.90</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating upgrade for Gopalan Enterprises (India) Pvt. Ltd (GEIPL) factors in the sustained improvement in leverage and coverage metrics driven by increase in occupancy and rental inflows of the commercial real estate portfolio, improved cash flow from operations of the residential real estate backed by healthy sales velocity and stabilisation of hotel business. The rental income is likely to increase from Q1 FY2025 aided by pre-leasing of 1 million square feet (msft) of office space in Fortune City, Bangalore. The leverage metrics - Total Debt (TD)/Cash flow from Operations (CFO including commercial, residential and hotel operations) and Lease Rental Discounting (LRD) Debt/Annual Rental - are estimated to improve to less than 2.0 times in FY2023-FY2024 and remain strong in the medium term with no additional external debt planned. The coverage metric as measured by DSCR is expected to be around 1.6 times in FY2023 and 2.2 times in FY2024 and remain healthy in the medium term with scheduled repayment of existing debt.

The rating derives strength from GEIPL's established position in the Bangalore real-estate market and its diversified revenues from the commercial office segment, Hospitality and Retail real-estate segment, including operation of a multiplex. It has a healthy brand position and an established track record of project completions and leasing of office spaces to reputed corporates. The rating considers the availability of large land parcels with the Gopalan Group which supports the future development prospects.

The rating, however, is constrained by the Group's exposure to execution, market and funding risks in the under-development commercial-office-space projects and a hotel in Kerala. These projects will be developed in phases and the funding for the same is expected to be met through internal accruals without availing any construction finance facilities. GEIPL remains exposed to geographical concentration risks, as the operations are primarily concentrated in Bangalore. Further, GEIPL's revenues from malls/office space are exposed to adverse macroeconomic and external conditions which could impact their operations. The profitability continues to remain exposed to volatility in occupancy and interest rates.

The Stable outlook reflects ICRA's expectation that the company will benefit from stable operational portfolio with healthy occupancy levels and low leverage levels.

### Key rating drivers and their description

#### Credit strengths

**Established market position in Bangalore real-estate market** – GEIPL is one of the established real-estate developers in Bangalore with a track record of more than 30 years of operations. The Group has significant land bank located in and around Bangalore that supports its development prospects in the region. The company has a healthy brand position and an established track record of project completion.

**Financial flexibility derived from low leverage and strong coverage metrics** – GEIPL derives financial flexibility from the low leverage with estimated TD/CFO and LRD debt/ Annual rental ratio less than 2 times which provides sufficient headroom to draw additional LRD loans, if required. Consequently, the DSCR is estimated to be around 1.6 times in FY2023 and is expected to further improve in the medium term with scheduled repayment of the existing debt.

**Diversified revenue portfolio with presence in commercial and hospitality segments** – GEIPL generates revenue from different segments, namely, lease income from commercial property (office and retail mall) and hotel operations. It has a 212-key hotel, located in Bangalore, operating under management contract with Accor Group under the brand – ‘Grand Mercure’. It also has under-construction project with a large office space planned in Bangalore (4.5 msf) and a hotel in Kerala.

### Credit challenges

**High funding requirements for ongoing projects, exposure to execution and market risks** – GEIPL is currently developing a large commercial office project in Mahadevapura, Bangalore. The project is expected to be developed in a phased manner with currently 1 msf completed area and is 100% leased. GEIPL is constructing a hotel in Bekal, Kerala. It plans to fund these projects through internal accruals without availing any construction finance loans. The company is exposed to execution and market risks given the nascent stages of construction of the future towers planned under commercial office project and no leasing for the upcoming towers.

**Geographical concentration risk and sensitive to external market factors** - GEIPL remains exposed to geographical concentration risks, as the operations are primarily concentrated in Bangalore. Further, GEIPL’s revenues from Malls/Office space are exposed to adverse macroeconomic and external conditions which could impact their operations.

### Liquidity position: Adequate

The company’s liquidity profile is adequate. It has repayments of Rs. 52 crore in FY2024 and Rs. 48.3 crore in FY2025 which are expected to be comfortably serviced by estimated its cash flow from operations. Additionally, it has free cash balances of around Rs. 6.33 crore as on December 31, 2022.

### Rating sensitivities

**Positive factors** – The rating could be upgraded if there is a significant increase in scale of operations, ramp up of occupancy of under-construction portfolio resulting in improvement in debt coverage metrics and liquidity position while maintaining comfortable leverage on a sustained basis.

**Negative factors** – The rating might be downgraded in case of any material decline in occupancy and/or significant increase in indebtedness resulting in weakening of debt coverage and leverage metrics on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Debt Backed by Lease Rentals</a> <a href="#">Hotels</a> <a href="#">Rating approach – Consolidation</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated financials of GEIPL and GE have been considered, given the common promoters as well as management and operational and financial linkages among the entities.

## About the company

Gopalan Enterprises (India) Pvt. Ltd (GEIPL) is one of the flagship entities of the Gopalan Group, with Gopalan Enterprises (GE) being the other major company. The Gopalan Group was set up in 1985 by Mr. C Gopalan, an architect and first-generation entrepreneur. GEIPL is involved in real estate development with presence in commercial, hospitality and entertainment (multiplexes) business. Most of the company's projects are in and around Bangalore.

### Key financial indicators (audited)

GE & GEIPL Consolidated	FY2021	FY2022
Operating income	262.2	311.6
PAT	50.7	21.3
OPBDIT/OI	53.5%	44.3%
PAT/OI	19.3%	6.8%
Total outside liabilities/Tangible net worth (times)	1.6	1.8
Total debt/OPBDIT (times)	4.6	5.0
Interest coverage (times)	1.8	2.1

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

Source: Company; ICRA Research

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

**Any other information: None**

## Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Feb 28, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Apr 04, 2023	March 31, 2023	Feb 28, 2022	Nov 04, 2020	Sep 25, 2020
1	Term Loan	457.59	298.90	[ICRA]A- (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING
2	Unallocated	-	-	-	-	-	-	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple

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
NA	Term Loan-I	December 2014	-	December 2027	28.44	[ICRA]A- (Stable)
NA	Term Loan-II	July 2020	-	December 2027	66.56	[ICRA]A- (Stable)
NA	Term Loan-III	December 2014	-	December 2027	33.15	[ICRA]A- (Stable)
NA	Term Loan-IV	July 2020	-	May 2029	29.20	[ICRA]A- (Stable)
NA	Term Loan-V	December 2014	-	December 2027	49.91	[ICRA]A- (Stable)
NA	Term Loan-VI	March 2019	-	February 2034	81.64	[ICRA]A- (Stable)
NA	Term Loan-VII	February 2020	-	March 2026	10.00	[ICRA]A- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
Gopalan Enterprises India Pvt Ltd (GEIPL)	100%	Full Consolidation
Gopalan Enterprises (GE)	72.8%	Full Consolidation

Source: Company

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