December 23, 2022

Godrej Green Homes Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	600.00	900.00	[ICRA]A (Stable); reaffirmed/assigned for enhanced amount
Total	**600.00**	**900.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation favourably factors in the adequate leasing pipeline for Godrej Green Homes Private Limited (GGHPL) and expected improvement in its debt coverage metrics in the near term. Given the current occupancy levels (around 40% as of November 2022) of the project, the additional area being in advance stages of leasing, the exit occupancy is expected to be around 55% by the end of FY2023. This along with expected lease tie-ups in FY2024, will result in improved coverage metrics in the medium term with five-year average debt service coverage ratio of more than 1.25 times in FY2023 and FY2024. The rating continues to note GGHPL's strong sponsor profile, whose shareholders are Godrej Properties Limited (GPL, rated [ICRA]AA+ (Stable)/A1+) and GBTC I (Master) Pte. Ltd, a real estate investment fund that is managed by Godrej Fund Management Pte Ltd. GGHPL owns Godrej Two, a commercial real estate property located in Vikhroli, Mumbai. The rating notes the favourable location of the property, which is a part of the integrated development of The Trees by the Godrej Group. The upcoming Line 6 of the Mumbai Metro connecting Andheri in western suburbs to Vikhroli – Eastern Express Highway is expected to further improve the connectivity. Further, the company has access to sufficient undrawn term loans and unencumbered cash balances which aids the liquidity position.

The rating, is however, constrained by the exposure to market risks, given the moderate occupancy levels. Despite the favourable location, the ramp-up in occupancy has been slow since its completion in March 2021 due to multiple factors such as the Covid-19 pandemic, disruptions caused by the Russia-Ukraine war and the looming global recession concerns. However, the adequate leasing pipeline mitigates the occupancy risk to a large extent. In FY2022, the company has availed additional loan against property (LAP 2) of Rs. 300 crore, which has increased the leverage and exposure to refinancing risk. The existing rentals and Letter of Intents (LOIs) are sufficient to refinance the LAP 1 loan, which is due for repayment in January 2023 in a timely manner. Timely leasing of the additional area at remunerative rates will be important to refinance the LAP 2 loan for which repayment starts from March 2024. ICRA notes that the company is in discussions with various prospective occupiers to take up additional space and discussions are in the final stages with some of the prospective tenants, which will mitigate the refinancing risk to an extent. The rating also factors in the high tenant concentration and the dependence on revenues from a single asset. These risks are partly offset by the profile of the tenants, which are large multi-national companies. Additionally, the significant fit-out expenses incurred by some tenants offers comfort on tenant stickiness in the near to medium term.

The Stable outlook reflects ICRA's expectation that GGHPL's credit profile will be supported by the adequate leasing pipeline, attractive location of the property and strong sponsor profile, which enhances its financial flexibility.

Key rating drivers and their description

Credit strengths

Strong sponsor profile – GGHPL's shareholders are GPL and GBTC I (Master) Pte. Ltd, a real estate investment fund that is managed by Godrej Fund Management Pte Ltd. GPL is a leading real estate developer with a track record of asset development across segments such as residential and commercial real estate. GBTC I Fund has raised equity from reputed investors with the mandate of investing in high quality commercial real estate assets. The strong sponsor profile lends high financial flexibility to the company.

Attractive location of the property – GGHPL has developed Godrej Two, a commercial real estate property in Vikhroli, Mumbai. The rating notes the favourable location of the property, which is a part of the integrated development of The Trees by the Godrej Group. The larger development includes Godrej One, an operational commercial property, as well as the residential towers. The upcoming Line 6 of the Mumbai Metro connecting Andheri in the western suburbs to Vikhroli – Eastern Express Highway is expected to further improve the connectivity. The location of the property and the high quality of development are likely to support the demand prospects.

Adequate leasing pipeline and expected improvement in coverage metrics – Given the current occupancy levels (around 40% as of November 2022) of the project, the additional area being in advance stages of leasing, the exit occupancy is expected to be around 55% by the end of FY2023. This along with expected lease tie-ups in FY2024, will result in improvement in coverage metrics in the medium term with five-year average debt service coverage ratio of more than 1.25 times during FY2023 and FY2024.

Credit challenges

Exposure to market risks due to moderate occupancy levels – The project is exposed to market risks, given the moderate occupancy levels. Despite the favourable location, the ramp-up in occupancy has been slow since its completion in March 2021 due to factors such as the Covid-19 pandemic, disruptions caused by the Russia-Ukraine war and the looming global recession concerns. However, the adequate leasing pipeline mitigates the occupancy risk to a large extent.

Susceptible to refinancing risk – In FY2022, the company has availed additional loan against property (LAP 2) of Rs. 300 crore, which has increased the leverage and exposure to refinancing risk. The existing rentals and LOIs are sufficient for timely refinancing of LAP 1, which is due for repayment in January 2023. Timely leasing of the additional area at remunerative rates will be important to refinance LAP 2, for which repayment starts from March 2024. ICRA notes that the company is in discussions with various prospective occupiers to take up additional space and discussions are in the final stages with some of the prospective tenants, which will mitigate the refinancing risk to an extent.

High tenant concentration – At present, the top three tenants generate ~84% of the total rent income resulting in high tenant concentration. Nonetheless, the rating considers the strong profile of the tenants, who are large multi-national companies, as well as the significant fit-out cost incurred by one of the tenants, which provides comfort on the tenant stickiness. With the signing of new leases, the tenant concentration risk is expected to reduce in near term. The rating also factors in the single asset nature of the special purpose vehicles (SPVs) and the dependence on revenues from a single property.

Liquidity position: Adequate

GGHPL's liquidity is adequate, backed by undrawn limits, cash balances and liquid investments. The undrawn limits provide adequate liquidity buffer to meet its short-term cash flow mismatches in case of any delay in leasing and rent commencement.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a significant increase in occupancy and mitigation of refinance risk associated with the LAP/CF loans resulting in improvement in debt coverage metrics on a sustained basis. Specific credit metrics that could lead to a rating upgrade include five-year average DSCR greater than 1.4 times on a sustained basis.

Negative factors – The rating may be downgraded if there are substantial delays in new lease tie-ups and rent commencement, which enhance the refinance risk, or if there is significant increase in indebtedness. Specific credit metrics that could lead to a rating downgrade include five-year average DSCR less than 1.25 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology- Lease Rental Discounting
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in December 2013, Godrej Green Homes Private Limited's (GGHPL) shareholders are Godrej Properties Limited (GPL, rated [ICRA]AA with Positive outlook) and GBTC I (Master) Pte. Ltd (managed by Godrej Fund Management Pte Ltd). The SPV owns the commercial real estate project called Godrej Two, located in Pirojshanagar, Vikhroli in Mumbai. The property is a part of an integrated township (The Trees) being developed by the Group. GPL and GBTC I hold 50% stake each in the company.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income	19.2	59.9
PAT	-28.0	-165.7
OPBDIT/OI	61.8%	52.2%
PAT/OI	n.m.	n.m.
Total outside liabilities/Tangible net worth (times)	4.5	13.5
Total debt/OPBDIT (times)	93.1	40.7
Interest coverage (times)	0.5	0.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore. n.m.: Not meaningful

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 past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on November 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 23, 2022	Sep 20, 2021		
1	Term loans	Long term	900.0	815.2	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	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 1**	Jun-2021	NA	May-2033	300.0	[ICRA]A (Stable)
NA	**Term loan 2**	Jun-2021	NA	May-2024	300.0	[ICRA]A (Stable)
NA	**Term loan 3**	Dec-2021	NA	Dec-2024	300.0	[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 – Not Applicable

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