February 16, 2024

Aakarshan Estates Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based	30.00	30.00	[ICRA]BB (Stable); reaffirmed
Total	**30.00**	**30.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation for Aakarshan Estates Private Limited (AEPL) factors in the healthy sales and collections of its project under joint development agreement (JDA) with Adani Realty namely Oyster Project [i.e., Grande (residential) and Arcade (commercial)], where AEPL is the landowner. The project enjoys healthy bookings of 93% with a sale value of ~Rs. 325 crore and collections of Rs. 290 crore as of September 2023 (Rs. 228 crore as of November 2022). The project construction is 100% complete with committed receivables of Rs. 34.3 crore as of September 2023. The rating notes the comfortable debt protection metrics, on a consolidated basis, with Gross Debt/CFO estimated at around 0.4 times as of March 2024 and DSCR in the range of 24-25 times in FY2024. While the company is expected to launch a new project in the residential segment and likely to have debt dependence for project construction, the leverage and coverage metrics are estimated to be comfortable in FY2025. The rating derives comfort from AEPL's experienced promoters as it is a part of the M2K Group and its long-standing experience in the real estate business having developed various commercial and residential projects in the National Capital Region (NCR), along with favourable location of its commercial property in Gurgaon and its proximity to Huda City Centre metro station as well as NH-8.

The rating is, however, constrained by the modest scale of operations as reflected by the estimated total collections of around Rs. 49 crore in FY2024 (including M2K Corporate Park and residential project). The occupancy at M2K Corporate Park moderated from 84% as of December 2022 to 81% as of December 2023. While the company has bought back 10,526 sq. ft. of area in FY2024, this is yet to be fully leased. The rating factors in the high lessee concentration risk with top three tenants accounting for 78% of the total leased space as of December 2023. It has one upcoming project (mixed use – plots and group housing) at Sector 37D, Gurgaon, where approvals are yet to be obtained, resulting in approval, market and execution risks. The rating notes AEPL's exposure to the geographical concentration risk, as all the projects are currently concentrated in Gurgaon, along with stiff competition from the commercial properties in proximity, amid the cyclicality inherent in the real estate sector in India.

The Stable outlook on the long-term rating reflects ICRA's expectation that the sales and collections from AEPL's ongoing and upcoming projects will remain adequate. ICRA expects that the occupancy levels of M2K Corporate Park is likely to improve and AEPL will be able to maintain healthy debt protection metrics.

Key rating drivers and their description

Credit strengths

Healthy sales and collections progress from its JDA project – The company has achieved healthy sales and collections in its project under JDA with Adani Realty namely Oyster Project [i.e., Grande (residential) and Arcade (commercial)] where AEPL is the landowner. The project enjoys healthy bookings of 93% with a sale value of ~Rs. 325 crore and collections of Rs. 290 crore as of September 2023 (Rs. 228 crore as of November 2022). The project construction is 100% complete with committed receivables of Rs. 34.3 crore as of September 2023.

Comfortable leverage and coverage metrics – The total debt for the company stood at Rs. 14.2 crore as of December 2023, which includes OD facility and vehicle loans. The debt protection metrics, on a consolidated basis, remain comfortable with Gross Debt/CFO estimated at around 0.4 times as of March 2024 and DSCR in the range of 24-25 times in FY2024. While it is expected to launch new project in the residential segment and likely to have debt dependence for project construction, the leverage and coverage metrics are estimated to be comfortable in FY2025.

Favourable location of the company and experienced promoters with established track record – The rating derives comfort from AEPL's experienced promoters as it is a part of the M2K Group and its long-standing experience in real estate business having developed various commercial and residential projects in NCR, along with favourable location of its commercial property in Gurgaon and its proximity to Huda City Centre metro station as well as NH-8.

Credit challenges

Modest scale of operations – The scale of operations remains modest as reflected by the estimated total collections of around Rs. 49 crore in FY2024 (including M2K Corporate Park and residential project). The occupancy at M2K Corporate Park moderated to 81% as of December 2023 from 84% as of December 2022. While the company has bought back 10,526 sq. ft. of area in FY2024, this is yet to be fully leased.

High lessee concentration and geographical risks – The company faces high lessee concentration risk with top three tenants accounting for 78% of the total leased space as of December 2023. Further, it has one upcoming project (mixed use – plots and group housing) at Sector 37D, Gurgaon, where approvals are yet to be obtained, resulting in approval, market and execution risks. As all the projects are currently concentrated in Gurgaon, the exposure to geographical risk remains high for the company.

Exposure to risks and cyclicality in real estate sector in India – Being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which exposes its sales to any downturn in demand for the ongoing and upcoming project. ICRA notes the company's exposure to competition within the region from various established developers.

Liquidity position: Adequate

The company has adequate liquidity position with undrawn bank lines of ~Rs. 15 crore as on December 31, 2023. Also, the average utilisation of limits remains at around 18% in the last 12 months, supported by healthy cash inflows from Oyster project. Its cash flows from operations are comfortable to service the debt repayment obligations in FY2024 and FY2025.

Rating Sensitivities

Positive factors – ICRA could upgrade the rating if the company is able to increase its occupancy and rentals for the commercial property and if there is a significant increase in the residential sales and collections resulting in an improvement in the liquidity position, while maintaining comfortable leverage, on a consistent basis.

Negative factors – Negative pressure on the rating could arise in case of a significant decline in occupancy and rentals or lower residential sales and collections in its existing and upcoming project, or if there are any substantial unbudgeted debt-funded investments leading to deterioration in debt protection metrics or the liquidity position on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty- Commercial/Residential/Retail Realty- Lease Rental Discounting (LRD)
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

Aakarshan Estates Private Limited (AEPL) was incorporated in June 1997. It is a part of the Delhi-based real estate group, M2K, which has developed various project in the Delhi-NCR region. The company owns a commercial property by the name – M2K Corporate Park and is located in Sector 51, in Gurgaon, Haryana. The property has a total leasable area of around 1.8 lakh square feet and is 84% leased out as of December 2022. It also has one group housing project (Oyster Grande) in Sector 102, Gurgaon, being developed under JDA with Adani Realty, where AEPL is the landowner.

Key financial indicators (Audited)

AEPL Standalone	FY2022	FY2023
Operating income	110.2	62.9
PAT	43.4	36.6
OPBDIT/OI	54.0%	58.7%
PAT/OI	39.4%	58.2%
Total outside liabilities/Tangible net worth (times)	1.1	0.9
Total debt/OPBDIT (times)	0.4	0.8
Interest coverage (times)	14.0	19.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, interest coverage ratio is calculated on OPBIDT;
Source: Company's annual reports, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)* as on Dec 31, 2023	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Feb 16, 2024	Mar 24, 2023	-	-
1	**Long-term – Fund-based**	Long-term	30.00	8.9	**[ICRA]BB (Stable)**	**[ICRA]BB (Stable)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based	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	**Long-term – Fund-based**	March 2022	-	**March 2031**	30.00	[ICRA]BB (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

ANALYST CONTACTS

Rajeshwar Burla
+91 040 6939 6443
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 040 6939 6427
anupama.reddy@icraindia.com

Neha Mittal
+91 124 454 5365
neha.mittal@icraindia.com

Lokesh Patni
+91 124 454 5327
lokesh.patni@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

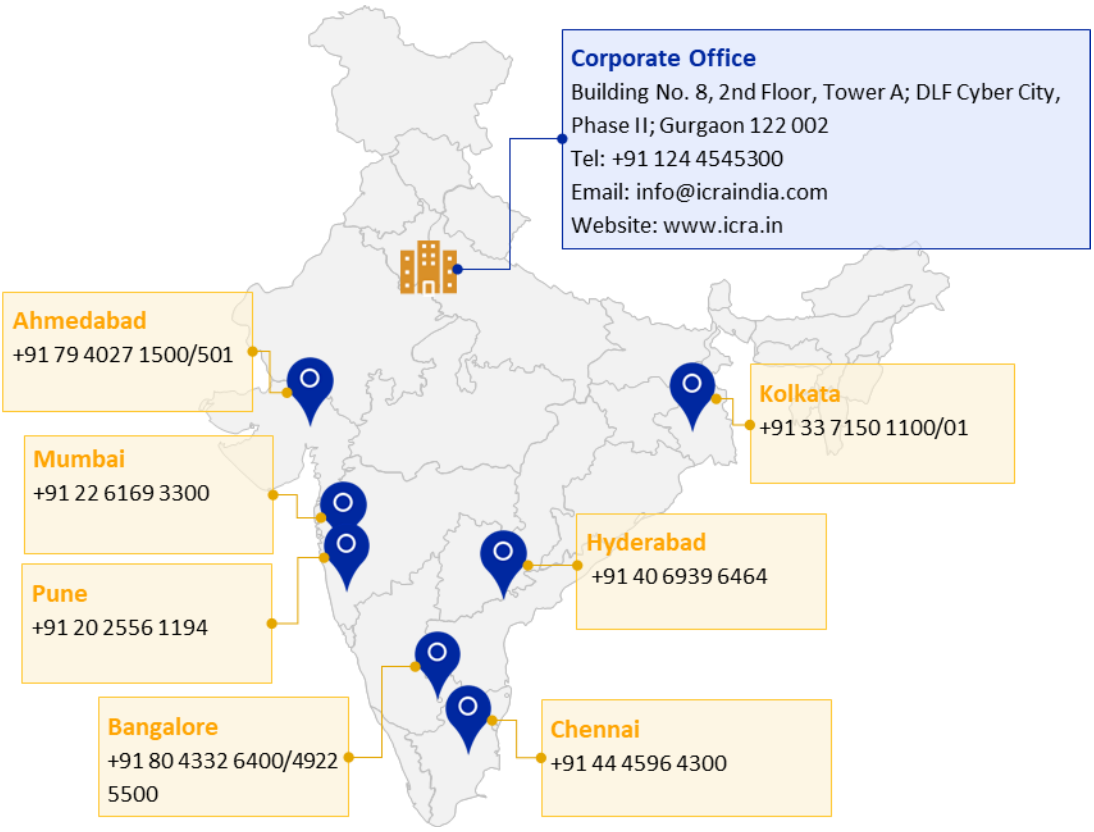
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.