



## Press Release

### Karle Properties (KP)

September 29, 2023

Sl. No.	Instrument/Facility	Amount (INR. Crore)	Rating	Rating Action	<a href="#">Complexity Indicators</a>
1	Long Term Bank Facility – Lease Rental Discounting (LRD)	52.19 (Decreased from 53.28)	IVR BBB- / Stable outlook (IVR Triple B Minus with Stable outlook)	Reaffirmed	Simple
	<b>Total</b>	<b>52.19</b> <b>(Rupees Fifty-Two Crore and Nineteen Lakh only)</b>			

Details of Facilities are in Annexure 1

#### Detailed Rationale

The affirmation of rating assigned to the above-mentioned bank facilities of Karle Properties continues to derive strength from its experienced promoters and management team, steady flow of lease rentals, maintenance of DSRA and Escrow mechanism. However, uncertainty related to finalization of unleased portion, renewal risk of Master Lease Agreements are some of the rating constraints.

#### Key Rating Sensitivities:

##### Upward rating factor(s):

- 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 rating factor(s)

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



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### **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.

##### **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. Lease Rentals are accounted for as per terms in the specific agreements on an accrual basis. Currently, the firm has been receiving a steady flow of lease rentals from 3 tenants. One tenant left the premises in January 2023, and that floor has been vacant till date. The firm has reported an increase of 41.18% in top line to INR6.98 Crore in FY23 from INR5.01 Crore in FY22 due to addition of new tenant in February 2022, and increase in lease rentals.

The location of the building premises 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 firm maintains debt service reserve account (DSRA) equivalent to three months interest & installment (EMI).



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### **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, the firm's 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.

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

The lock-in period spans from 30 to 36 months, after which clients have the option to relocate by adhering to the notice period requirement. However, going forward, it will be important to assess the Firm's capacity to prevent early lease agreement terminations. Ensuring timely agreement renewals will continue to be a significant consideration in the medium term.

**Analytical Approach:** Standalone

#### **Applicable Criteria:**

[Rating Methodology for Structure Debt Transaction \(Non- securitisation transaction\)](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria on assigning rating outlook](#)

#### **Liquidity: Adequate**

The cashflows from operations shall be adequate to service the monthly obligations, aided by rental income. The lease rental discounting loan has an escrow mechanism which prioritizes debt repayment before any other utilization and is also backed by DSRA equivalent to 3 months of the interest payments. The firm maintains cash and cash equivalent amounting to INR0.55 Crore as on March 31, 2023.



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### About the Company/ Firm:

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:

For the year ended/ As On*	(INR. Crore)	
	31-3-2022 (Audited)	31-3-2023 (Audited)
Total Operating income	5.01	6.98
EBITDA	1.72	4.27
PAT	-0.28	2.13
Total Debt	61.06	59.77
Tangible Net-worth	5.24	-78.74
<b>Ratios (%)</b>		
EBITDA Margin (%)	34.29	61.16
PAT Margin (%)	-5.52	29.31
Overall Gearing Ratio (x)	11.66	-0.76

\*Classification as per Infomerics standards

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

**Any other information: N.A.**



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### Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding. (INR. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (July 04 2022)	Date(s) & Rating(s) assigned in 2021-22 (April 5, 2021)	Date(s) & Rating(s) assigned in 2020-21
1.	Long Term Bank Facility – Lease Rental Discounting (LRD)	Long Term	52.19	IVR BBB-/ Stable Outlook	IVR BBB-/ Stable Outlook	IVR BBB-/ Stable Outlook	--

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### About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations. Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.



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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR. Crore)	Rating Assigned/ Outlook
Long Term Bank Facility – Lease Rental Discounting (LRD)	--	--	Up to February, 2034	52.19	IVR BBB-/ Stable outlook

**Annexure 2: List of companies considered for consolidated analysis: Not Applicable.**

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/len-karle-sep23.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable.**

**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](http://www.infomerics.com).