

## Carol Info Services Limited

June 14, 2023

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	462.00 (Enhanced from 100.00)	CARE BBB-; Negative	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation of the rating on the bank facilities of Carol Info Services Limited (CISL) factors in its demonstrated track record of 20 years with strong occupancy, timely rental receipts along with escalations and favourable asset location being at Bandra Kurla Complex (BKC), Mumbai, which is one of the prime locations of the city.

The rating also takes cognizance of well-maintained asset quality, low leverage and adequate liquidity. With no new major debt proposed in near term, CARE Ratings Limited (CARE Ratings) expects debt service coverage ratio to remain moderate over medium term.

The rating strengths are however tempered by high tenant concentration risk given the property is largely occupied by single tenant Wockhardt Limited (WL, rated CARE BBB-/Negative/CARE A3), the flagship entity of the Wockhardt group. Continued moderation in the credit profile of WL marked by lower-than-expected performance in FY22 (FY refers to the period April 01 to March 31) and FY23 exposes CISL to revenue risk. CISL is also exposed to geographical concentration risk emanating from larger asset exposed to single region-specific event risk.

The rating weaknesses further takes into account high exposure to group entities with no committed returns, inherent market risk and volatility in interest rate risk.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Significant debt repayment resulting in improved debt coverage (debt/ PBILDT below 3x on sustained basis).
- More than 50% recovery of investments from group entities resulting in improved liquidity position of CISL.
- Improvement in the credit profile of WL.

#### Negative factors

- Lower than envisaged rentals impacting CISL's cashflow and debt coverage metrics.
- Significant deterioration in the credit profile of WL in near term.
- Un-envisaged incremental debt weakening debt/PBILDT above 6x on sustained basis.

### Analytical approach: Consolidated.

The consolidated financials of CISL factors in financials of its wholly owned subsidiary 'Banneret Trading Private Limited (BTPL)' however due to absence of any operations in subsidiary, standalone financials are no different from consolidated financials.

### Outlook: Negative.

The negative outlook on CISL reflects possibility of weak performance of its key tenant- WL in near term which in turn may impact the rental inflows of CISL. Significantly lower than estimated rentals are likely to put pressure on the debt coverage ratios of CISL. Performance of WL remains monitorable.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Detailed description of the key rating drivers:

### Key strengths

**Consistent cashflows supported by strong occupancy:** CISL owns two properties each in Mumbai and Aurangabad in the state of Maharashtra, which are 100% occupied. CISL is a Wockhardt group company, and the property is largely occupied by their flagship entity, WL (94%) and remaining space is leased to Adani Electricity Mumbai Limited (AEML). Lease agreements are usually for a period of five years which are rolled over at the end of the tenor. CISL generates annual rentals of close to ₹111 crore which is subject to escalation by 5-7% every year.

This exposes CISL to the risk of significant deterioration in the credit profile of WL given direct linkages with CISL. However, CISL's established track record of receiving rentals in time since past twenty years reflects its strategic importance to the Wockhardt group.

**Favourable location of the property:** BKC is one of the most prominent commercial hubs of Mumbai which houses the head offices/ corporate office of majority of country's financial sector organizations. Accordingly, the location commands some of the highest rental rates in Mumbai. The property is well known asset in BKC and enjoys proximity to major part of the city.

**Low leverage and satisfactory debt coverage ratios:** CISL's debt profile consists of term loans close to ₹392crore as on March 31, 2023. With the given debt size, the company has a low loan-to-value (LTV) of 48.86% as of February 2023. The company also has a comfortable capital structure with overall gearing below unity at 0.49x as on March 31, 2023 (0.54x as on March 31, 2022). CISL has moderate debt coverage ratio at 4.44x (debt/ PBILDT) in FY23. The ratio will possibly improve going ahead with incremental rentals every year.

### Key weaknesses

**Moderation in the credit profile of key tenant:** The credit profile of WL has weakened given losses in FY22 (A), decline in revenue and fall in profit margins in FY23 (UA) and continued thin debt service coverage ratio (DSCR). Due to availability of adequate liquidity, WL could pre-pay portion of debt as on May 31, 2023. Potential developments in FY24 will possibly improve the financial health of WL, however, remains under close watch. Continued weak performance of WL if any, is likely to put pressure on CISL's cashflows.

**Concentration risk:** Around 94% of the total leasable area is occupied by the WL which exposes CISL to significant tenant concentration risk. Therefore, any change in credit profile of WL has direct implications on the cashflows of CISL. Furthermore, WL has presence in pharma sector, hence CISL is also exposed to industry specific risk. Presence of property primarily in Mumbai, therefore, also exposes CISL to geographical concentration risk.

**Market risk:** CISL's 37% of the leased area has lease expiry in FY24 while remaining in FY27. The company remains exposed to inherent risk of rent roll over and timely rental escalation. Incremental rentals are crucial for CISL's cashflows going ahead, hence remains a key rating monitorable.

**Huge exposure to group entities:** CISL's 56% of the net worth is deployed in associate concern namely, Wockhardt Hospital Limited (rated CARE BB+/Stable/CARE A4+). Further, around 17% of the net worth is in the form of investments in parent entity, Khorakiwala Holdings and Investments Private Limited (KHIPL). Put together close to 73% of CISL's net worth is invested in group entities with no committed returns or timelines for return on these investments. Continued long investments in group entities with no defined pay backs, limits the liquidity strength of CISL.

**Liquidity:** Adequate. CISL has liquid funds to the tune of ₹14crore as on March 31, 2023. This apart, the company has debt Service Reserve Account (DSRA) of ~₹10 crore which is adequate for debt servicing of 2 months and escrow arrangement in place. CISL has annual cash inflows of ~₹111 crore as rentals. Against the available liquidity, the company has an annual debt repayment obligation of ₹60-70 crore over medium term. With no new capex proposed over medium, probability of any major incremental debt inflow is low. Given so, debt service coverage ratio is expected to remain satisfactory above 1.10x.

**Assumptions/Covenants:** Not available.

**Environment, social, and governance (ESG) risks:** Not applicable.

### Applicable criteria

[Policy on consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Policy on default recognition](#)

[Policy on curing period](#)

[Policy on Withdrawal of Ratings](#)

[Rating methodology for Debt backed by lease rentals](#)

[Rating Outlook and Credit Watch](#)

### About the company and industry

#### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Realty	Realty	Residential, Commercial Projects

Incorporated on November 29, 1979, CISL, is promoted by Wockhardt group based out of Mumbai. The group is promoted by Dr Habil Khorakiwala, Chairman, Wockhardt Group. CISL is 92% held by KHIPL.

The group has an established presence in the pharmaceutical sector through its flagship company i.e. WL which is engaged in manufacturing and marketing of pharmaceuticals, bio-pharmaceutical formulations, and active pharmaceutical ingredients (APIs) and Vaccines.

CISL houses two properties with a leasable area of 1.69 Isf. Commercial space of 1.16 Isf in BKC, Mumbai (Maharashtra) is leased to WL largely for the period of five years ending March 2027. CISL also owns 0.53 Isf of commercial space in Aurangabad (Maharashtra) which is leased to WL for the period of five years ending June 2023.

Brief Financials-consolidated (₹ crore)	FY21 (A)	FY22 (A)	FY23 (UA)
Total operating income	92.58	94.60	98.23
PBILDT	88.20	88.13	92.12
PAT	58.03	73.90	77.41
Overall gearing (times)	0.50	0.54	0.49
Interest coverage (times)	2.30	2.32	2.09

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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

**Any other information:** Not applicable

**Rating history for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	Jan 2035 & Jan 2037	462.00	CARE BBB-; Negative

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based-Long Term	LT	462.00	CARE BBB-; Negative	1)CARE BBB-; Negative (08-Jun-23)	-	-	-

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-Long Term	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

## Contact us

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