IBC Knowledge Park Private Limited

October 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	280.00	CARE A-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities of IBC Knowledge Park Private Limited (IBCKPPL) derives strength from presence of experienced promoters, healthy occupancy of the property, diversified tenant profile, and prime and strategic location of Grade A commercial office spaces in Bangalore. The rating also factors in comfortable financial risk profile, adequate liquidity position and presence of an escrow mechanism with a debt service reserve account (DSRA) for debt servicing.

However, rating strengths are partially offset by substantial exposure in group companies, risk associated with timely renewals, as well as leasing out of total space, execution risk, and inherent risks associated with cyclical nature of the real estate industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving external debt to EBITDA (earnings before interest, tax, depreciation and amortisation) to below 5x and cash coverage ratio (CCR) above 1.30x, on a sustained basis

Negative factors

- Declining CCR below 1.10x on a sustained basis
- Significant un-envisaged debt addition
- Deterioration in debt to EBITDA above 7.5x on a sustained basis
- Delay in the construction of ongoing project and tie-up of lease rentals at envisaged rates, thereby resulting in an adverse impact on envisaged cash flow

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectations that IBCKPPL will continue to generate stable leasing income driven by healthy occupancy level and envisaged escalations.

Detailed description of key rating drivers:

Key strengths

Experienced promoter group

The flagship company of Indian Builders Corp. (IBC) group, IBCKPPL is a Bangalore-based real estate company, and specialises in the development and leasing of commercial spaces. IBCKPPL is promoted by Yunus Zia, Sharmeen Yunus, Danish Sheriff and Azeem Sheriff.

IBC group has over 55 years of experience in real estate and has successfully completed over 150 lakh square feet (lsf) across India. IBC presently has over 120 lsf under various stages of development in India. Apart from the real estate sector, the group is also engaged in other business including coffee plantations, hospitality, healthcare, manufacturing, information technology, education and alternative investments.

Steady cashflows, supported by healthy occupancy level and reputed tenant

The company has two Grade A commercial spaces in Bangalore - IBC Knowledge Park (located on Bannerghatta Road, having leasable area of 19.35 lsf) and Diamond District (located on Old Airport Road, having leasable area of 4.47 lsf). The combined occupancy rate of IBCKKPL's offices stood healthy at 92%. Most lease agreements are executed for a tenure of over five years with an escalation of 4-5%, annually.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

The property is leased to reputed tenants such as Reliance Projects & Property Management Services Limited, Ather Energy Private Limited, Climate ETC Technology Services Private Limited, Temenos India Private Limited, and One Sigma Technologies Private Limited.

Favourable location and Grade A quality assets
IBC Knowledge Park is a Grade A commercial space, located on Bannerghatta Road, benefiting from connectivity to MG road, with proximity to the vibrant neighbourhood of Koramangala surrounded by hotels and retail destinations.
Diamond District is a Grade A commercial space, located on Old Airport Road, enclosed by exceptional restaurants, hotels and lounges in the vicinity of the vibrant communities of Indiranagar and Koramangala, amid the IT hub of Whitefield and downtown Bangalore.
The prime location and quality infrastructure of the asset contributes to maintained healthy occupancy level.

Comfortable financial risk profile
In FY24, the company generated rental income of ~₹190 crore and based on outstanding external debt, debt to rental and debt to EBITDA stood close to 7x.
Going ahead, no further debt is envisaged, thus debt coverage metrics are expected to improve. The debt to EBITDA is expected to be in the range of 4x-7x. Additionally, CCR is expected to remain modest over the tenure of the term loan owing to moderately high leverage of the asset.

Presence of Escrow mechanism and Debt Service Reserve Account (DSRA) for debt servicing
Per terms of the loan agreement, entire cash inflows consisting of lease rentals, and other inflows (CAM receipts, and parking income) are required to be routed through designated escrow account. There is a well-defined waterfall mechanism, where debt servicing takes priority over other outflows, demonstrating strong discipline. With escrow and waterfall mechanisms, the company is also required to create DSRA equivalent to one-three months principal and interest amount, which supplements the liquidity profile.

Key weaknesses

Execution risk associated with under-construction tower
IBCKPPL is constructing an additional tower (G Block) in IBC Knowledge Park, offering a total leasable area of 7 lsf. Of this, 1.5 lakh square feet will be allocated to Bangalore Housing Development and Investments (BHDI), a subsidiary partnership firm of IBCKPPL. The project is estimated to cost ~₹175 crore, which will be financed through internal accruals. As of March 2024, the company has incurred cost of ₹60 crore. The tower is expected to be completed by FY27, and the management is in talks with existing tenants to lease out block G/the vacant area.

Risk associated with timely renewals as well as leasing out of total space
The company's rental income is susceptible to volatility in occupancies and rental rates. In the next five years, over 50% of area shall be due for renewal. Accordingly, timely renewal of lease agreements and realisation of escalations as envisaged remains crucial for effective cash flow management. The company is also exposed to marketing risk with leasing balance space and space in new tower. Long track record of operations of promoters and its established relationship with tenants, provides comfort in terms of sustenance of healthy occupancy level.

Tenant concentration risk
IBCKPPL is exposed to tenant concentration risk as top five tenants occupy approximately 57% of the leased area in IBC Knowledge Park and around 60% of the leased area in Diamond District. Both assets have a fairly concentrated tenant base, with top five tenants occupying a significant portion of the leased area.

Substantial exposure in group companies
IBCKPPL has significant exposure in its group companies/subsidiaries in the form of equity and unsecured loans/advances infusion as detailed below. IBCKPPL's cash flows are adequate to meet its operating and debt servicing obligations. Currently, there is no major support envisaged from business operations to group entities. However, any significant support extended from business operations, impacting the company's liquidity will remain monitorable.

Geographic concentration risk
Both the commercial assets of the company are located in Bangalore, exposing the company to geographical concentration risk. Any adverse development or decline in demand in such micro-market may significantly impact the rentals and occupancy of the company. Nevertheless, prime location of the asset reduces risk to certain extent.

Inherent risk associated with cyclical real estate industry
The company is exposed to cyclicality associated with the real estate sector, which has direct linkage with general macroeconomic scenario, interest rates and level of disposable income available with individuals. Rental collection remains susceptible to economic downturns, which may constrain the tenant's business risk profile, and therefore, limit occupancy and rental rates. Also, the emergence of competing facilities in the vicinity could cannibalise tenants or rental rates. While majority of tenants in IBCKPPL are established corporates and may continue to occupy the property, any industry shock leading to vacancies may make it difficult to find alternate lessees within the stipulated time. This could adversely impact cash flow, and hence, will be monitorable.

Liquidity: Adequate
Adequate liquidity is characterised by strong monthly rental collection of ~₹17 crore against monthly average interest and principal obligation of ~₹14.67 crore in FY25. Hence, net project inflows of the company are expected to be adequate to serve debt commitments. Additionally, the company has cash and bank balances of over ₹140 crore as on March 31, 2024, which covers over 80% of its debt commitments due until FY25.

Assumptions/Covenants: Not applicable

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

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Rating methodology for Debt backed by lease rentals

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Realty	Realty	Residential, commercial projects

Incorporated in 2002, IBCKPPL, the flagship company of Indian Builders Corp. (IBC) group, is a Bangalore based real estate company, engaged in real estate business and specialises in the development and leasing of commercial spaces.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	245.19	273.69
PBILDT	181.96	181.82
PAT	57.03	58.65
Overall gearing (times)	2.05	1.18
Interest coverage (times)	1.75	1.65

A: Audited; P: Provisional; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Brickwork Ratings in its press release dated April 15, 2024, downgraded the long-term ratings for the Bank Loan Facilities from BWR BB+; Stable (INC) to BWR BB; Stable (INC), based on the best available information, non-submission of NDS, management's continued non-cooperation and in line with extant guidelines.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	-	-	-	March 2038	280.00	CARE A-; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	280.00	CARE A-; Stable				

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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Disclaimer:

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