

Vaniyan Kannan Karunakaran

May 02, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	59.00	CARE BB; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facility of Vaniyan Kannan Karunakaran (VKK) takes into account the full occupancy of the property albeit expired lock in periods and inherent renewability risk associated with lease agreements. It has an experienced management with an established track record; however, the constitution of the firm being proprietorship in nature exposes it to inherent capital withdrawal risk along with restricted avenues to raise capital which could prove a hindrance to its growth. The rating considers the absence of escrow mechanism and debt servicing reserve account (DSRA).

The rating also considers an upcoming commercial real estate project, which is estimated to be funded by a new proposed term loan. The project's timely execution and leasing of spaces is a key monitorable as it would have a direct impact on the firm's liquidity profile.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Full occupancy of upcoming project with average rentals of not less than Rs. 65 / sq. ft. / month.
- Total debt/PBDIT of less than 4x.

Negative factors

- Occupancy falls below 95% or non-renewal of lease agreement of existing property
- DSCR < 1.05x
- Strain on liquidity due to the execution and leasing risk of the upcoming project.

Analytical approach: Standalone

Outlook: Stable

Stable Outlook reflects CARE Ratings expectation that the firm would be able to receive rentals in timely manner aided by strong credit profile of tenant.

Detailed description of key rating drivers:

Key weaknesses

Renewability risk as loan duration longer than total lease duration

The signed lease agreements of only two tenants are of 15 years tenor with lock in periods of all tenants expired. There exists a renewability risk. Post the lease period, the tenant has an option to terminate the lease without any charges. Therefore, continuation of lease after expiry of minimum lease period is a key risk as the renewability depends on various factors including alternate choices available to tenants, prevailing rental rates and maintenance of the commercial property. However, the underlying property is located at a prime location and the tenants being reputed and well-off brands reduces the risk.

Execution and leasing risk for the upcoming project

VKK is currently developing Karuna Star property in Mangaluru. It is a commercial real estate project with leasable area of 1.67 lakh sq. ft. The total project cost is estimated at Rs. 105.93 Cr for which the firm is yet to raise Rs. 40 crore of debt. Its scheduled date of completion is January 2027. No pre-leasing has been done. The project's timely execution and leasing of spaces is a key monitorable as it would have a direct impact on the firm's liquidity profile.

Constitution of the entity as a proprietorship firm

VKK being a proprietorship firm, is exposed to inherent risk of the proprietor's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the proprietor. Moreover, a proprietorship firm has restricted avenues to raise capital which could prove a hindrance to its growth.

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

Absence of secured escrow mechanism and DSRA

As per sanction terms, VKK is not maintaining escrow account and DSRA with the bank. Since VKK is under sole banking arrangement, its business-related transactions are being made with that bank only. Due to long standing banking relationship, good track record and constraints expressed by VKK for maintaining multiple accounts, the parties have agreed on serving EMI from existing savings account rather than maintaining another account.

Key strengths

Experienced management with established track record

Mr. Vaniyan Kannan Karunakaran, aged about 69 years, is in construction business for the past 35 years. He is one of the renowned promoters in the Residential & Commercial construction segment in Mangalore.

Reputed Tenants

The property is located on prime area of the city due to which 100% occupancy is expected. Multiple reputed companies like Reliance, Malabar Gold, Cogent E Services, etc have registered lease agreements with the firm.

Liquidity: Stretched

Liquidity of the firm is stretched on account of loan tenor being longer than lease periods of the tenant group occupying the underlying property. The firm is not maintaining an escrow mechanism or DSRA. The DSCR is moderate and stands just above unity. In case of firm undertaking the proposed project, it is critical to lease out the project in timely manner at remunerative rentals so as to ensure that liquidity profile is not deteriorated.

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

VKK is a proprietorship firm with more than two decades of track record in residential and commercial real estate construction in Mangaluru. It has two primary sources of income – rental income from commercial real estate properties and hotel / lodging income from a 3-star hotel with 67 A/C rooms.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	March 31, 2025 (UA)
Total operating income	11.47	13.15	13.90
PBILDT	6.16	5.77	NA
PAT	3.47	2.45	NA
Overall gearing (times)	3.08	3.95	NA
Interest coverage (times)	2.40	1.73	NA

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

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	-	-	-	November 2039	59.00	CARE BB; 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 2025-2026	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
1	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	59.00	CARE BB; 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 detailsTo 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.

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in Relationship Contact Saikat Roy Senior Director CARE Ratings Limited Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Analytical Contacts Karthik Raj K Director CARE Ratings Limited Phone: +91-80-4662 5555 E-mail: karthik.raj@careedge.in Himanshu Jain Associate Director CARE Ratings Limited Phone: 91-080-46625528 E-mail: himanshu.jain@careedge.in Sahil Kulkarni Rating Analyst CARE Ratings Limited E-mail: Sahil.kulkarni@careedge.in
---	--

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For detailed Rationale Report and subscription information,
please visit www.careedge.in**