

September 30, 2022

## City Corporation Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund-based – Term loan	65.00	-	-
Long term - Fund-based – Proposed	-	65.00	[ICRA]BBB (Stable); reaffirmed
<b>Total</b>	<b>65.00</b>	<b>65.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of the long-term rating factors in City Corporation Limited's ('CCL' or 'the company') ability to maintain good sales velocity and construction progress for its residential portfolio during FY2022, which supports the near-term cashflow visibility. The rating also favourably factors in the presence of DSRA equivalent to one quarter's interest as well as built-in cash sweep mechanism, against majority of external project debt, for pre-payments. The rating continues to take into consideration the location advantage that the projects enjoy as part of the 400-acre integrated township, Amanora Park Town, located close to key city areas. CCL has completed nearly 8 million square feet (msf) of residential area, while 2.8 msf of residential development and 0.5 msf of commercial development is currently under construction. Further, CCL has additional development potential for more than 9 msf of residential/commercial space within the township, which provides long-term revenue visibility.

The rating continues to be constrained by continued weakness in the mall operations (under CCL's subsidiary) as evident from the low occupancy levels of 61% as on August 2022, resulting in weak cash flows. The risk is partly mitigated by the recent refinancing of the LRD loan for the mall at lower interest rate and favourable repayment schedule. The reduced repayments for the current and next financial year are expected to provide sufficient time for stabilization and improvement of the mall operations. The company's portfolio remains exposed to moderate project execution risk and geographical concentration risk as all the development is part of a township. The rating is also constrained by CCL's presence being limited to the real estate sector, which in turn is exposed to inherent cyclicity as well as regulatory risks.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that CCL will continue to maintain its business positioning as well as healthy saleability of its projects.

### Key rating drivers and their description

#### Credit strengths

**Healthy cash flow visibility**– CCL is currently developing three residential projects, Gold Towers, Ascent Towers and Elevate Towers, under the flagship company and undertaking two commercial projects, Apex Tower and Crest Tower, under its subsidiary. Additionally, two projects, Adreno Towers and Gateway Towers, have been delivered recently. CCL recorded sales of Rs. 630 crore in FY2022 compared to Rs. 430 crore and Rs. 350 crore in FY2020 and FY2021 respectively. The remaining unsold inventory is expected to be sold over next one to two years' time. As on March 31, 2022, the real estate development portfolio had a combined pending receivable of Rs. 900 crore and unsold inventory of over Rs. 900 crore as against pending cost of Rs. 581 crore. The total debt outstanding for CCL (excluding LRD loan against Amanora Mall) was Rs. 142 crore indicating pending receivables/(pending cost+ debt outstanding) of 124%.

**Presence of DSRA and cash sweep mechanism** – ICRA favourably factors in the presence of DSRA equivalent to one quarter's interest as well as built-in cash sweep mechanism against external debt drawn, for most of its projects, in an escrow account

for pre-payments. As healthy collections are expected for its soon-to-be-completed projects, the cash sweep will ensure prepayment of debt before any surplus can be deployed into other projects and expansion activities. For the lease rental discounting (LRD) debt against the mall, as well, DSRA equivalent to one quarter's instalment is being maintained.

**Attractive location and large, integrated township development** – CCL, together with its subsidiaries, is developing a 400-acre township project at Hadapsar (Pune), which is close to key city areas such as Koregaon Park, Viman Nagar and Kharadi. The township project is well connected to the airport and is also in proximity to some of the city's key employment hubs. As it is an integrated township with residential as well as commercial projects, the overall social infrastructure is well developed. CCL has completed nearly 8 million square feet (msf) of residential area, while 2.8 msf of residential development and 0.5 msf of commercial development is currently under construction. Further, CCL has additional development potential for more than 9 msf of residential/commercial space within the township, which provides long-term revenue visibility.

### Credit challenges

**Support requirement by key subsidiary for mall operations**– CCL's key subsidiary, City Realty And Development Pvt. Ltd. (CRDPL), currently operates a shopping mall at Amanora Park Town with a total leasable area of 0.92 msf and is also undertaking development of commercial real estate in the mall premises. Given the weak performance of the mall and the expansion activities during FY2021 and FY2022, CCL has given loans and advances of Rs. 82 crore to its subsidiary as on March 31, 2022. The rating is constrained by continued weakness in the mall operations (under CCL's subsidiary) given the current as evident from the low occupancy of 61% as on August 31, 2022, thereby leading to weak cash flows. However, the CRDPL has been able to mitigate the risk to an extent by refinancing its existing LRD debt with a new one at lower interest rate and favorable repayment structure. This has significantly reduced the repayment for the current and next year and provides sufficient time for stabilization and improvement of the mall operations.

**Exposed to moderate project execution risk** – Excluding the nearly complete projects (Adreno and Gateway), the financial progress of other under-construction projects is ~50%. ICRA notes that CCL has additional development potential of more than 9 msf of housing development within the township. Given the demand, new projects with a saleable area of up to 1 msf will be launched in the near to medium term.

**Exposed to regulatory risk and inherent cyclicity in the real estate sector** – The real estate sector is cyclical and has a highly fragmented market structure because of the presence of a large number of regional players. In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which in turn exposes the company's sales to any downturn in demand. The rating is also constrained by CCL's dependence on cash flows from a single micro-market, which further exacerbates the inherent cyclicity as well as regulatory risks

### Liquidity position: Adequate

CCL's liquidity is expected to remain adequate, supported by unencumbered cash balance of Rs. 30 crore (as on March 31, 2022), pending receivables of Rs. 900 crore against a pending cost of Rs. 581 crore and debt outstanding (excluding LRD debt) of Rs. 142 crore. Further, ICRA expects that operational cash flows of CCL will be adequate to fund any cash flow mismatch arising from the mall operations and its expansion capex.

### Rating sensitivities

**Positive factors** – The rating may be upgraded in case of significant improvement in the mall cashflows and/ or reduction in consolidated external debt. Maintaining healthy cash flows from the residential segment will be also critical for any positive rating movement.

**Negative factors** – Negative pressure on CCL's rating could arise due to slower than expected sales and collections and/or continued deficit in mall operations leading to increase in debt.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Real Estate Entities</a> <a href="#">Consolidation and Rating approach</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of City Corporation Limited and its three subsidiaries as enlisted in Annexure 2.

## About the company

City Corporation Limited (CCL) is the flagship company of Pune based City Group which is engaged in real estate development. CCL was incorporated in FY2003 to undertake development of Amanora Park Town, an integrated township project located at Hadapsar, Pune. Along with real estate development, CCL also undertakes management of the township. CCL also has 'Amanora Club' which provides world class sports and leisure facilities to the residents of township and other citizens of Pune. It has also installed 1.6 MW of wind power at Satara.

Spread over nearly 400 acre, CCL has sold majority of the completed and under-construction launched inventory for residential projects.

### Key financial indicators (audited)

CCL	Standalone	
	FY2021	FY2022
Operating income	723.2	856.0
PAT	4.9%	5.0%
OPBDIT/OI	18.2%	15.6%
PAT/OI	4.9%	5.0%
Total outside liabilities/Tangible net worth (times)	4.7	3.7
Total debt/OPBDIT (times)	6.6	5.2
Interest coverage (times)	2.3	1.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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

**Any other information: None**

## Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the Past 3 Years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Sept 30, 2022	Jun 04, 2021	Jul 24, 2020	Jun 24, 2019
1 Term loans	Long term	-	-	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Positive))
2 Proposed	Long term	65.00	-	[ICRA]BBB (Stable)	-		

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based - Proposed	Not Applicable

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: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Proposed	-	-	-	65.00	[ICRA]BBB (Stable)

Source: Company

## Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Amanora Clubs & Resorts Private Limited	100%	Full Consolidation
City Realty & Development Private Limited	98%	Full Consolidation
Skyscapes Hotels Private Limited	100%	Full Consolidation

Source: Company; \* as of March 31, 2021

## ANALYST CONTACTS

**Rajeshwar Burla**  
+91 40 40676527  
[rajeshwar.burla@icraindia.com](mailto:rajeshwar.burla@icraindia.com)

**Tushar Bharambe**  
+91 22 - 61693397  
[tushar.bharambe@icraindia.com](mailto:tushar.bharambe@icraindia.com)

**Mathew Kurian Eranat**  
+91 80 4332 6415  
[mathew.eranat@icraindia.com](mailto:mathew.eranat@icraindia.com)

**Sandhya Negi**  
+91 20 6606 9925  
[sandhya.negi@icraindia.com](mailto:sandhya.negi@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)  
[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

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



### Branches



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