

September 30, 2022

City Realty And Development Pvt. Ltd.: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|----------------------------------|--------------------------------------|-------------------------------------|---|
| Long term Fund-based – Term loan | 250.00 | 250.00 | [ICRA]BBB- (Stable) reaffirmed; Outlook revised to Stable from Negative |
| Total | 250.00 | 250.00 | |

*Instrument details are provided in Annexure-I

Rationale

The revision of outlook to Stable from Negative on the long-term rating of City Realty And Development Pvt. Ltd. ('CRDPL' or 'the company') factors in the recent refinancing of its existing lease rental discounting (LRD) loan with a new loan having lower interest rate and structured repayment schedule. The refinancing has resulted in a significant reduction in the company's debt obligations for the current and the next financial year. This is expected to provide requisite time for stabilisation of mall's operations and improving the occupancy levels which currently remains low 61% as on August 31, 2022.

The rating continues to derive comfort from CRDPL's parent's, City Corporation Limited (CCL; rated [ICRA]BBB (Stable)), commitment to provide timely support to the company in case of any mismatch and the financial flexibility available from the commercial development in the mall campus. Further, the rating continues to factor in favourable the extensive experience of the promoter in the real estate industry, the company's reputed tenant profile and the favourable project location of its mall.

However, the rating is constrained by high vacancy risk with the mall occupancy remaining weak at 61% as on August 31, 2022. The risk is mitigated by the healthy leasing pipeline for the mall which once operational would support the improvement in performance. The rating is also constrained by cyclicity in the retail sector and the company's vulnerability to exogenous shocks such as the Covid-19 pandemic which could impact the cash flows. The company will also be susceptible to project implementation and market risks pertaining to the expansion project.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoter in the real estate industry – City Group is involved in the development of residential as well as commercial real estate projects through its flagship company, CCL, and its subsidiaries. The Group has been involved in construction and development for more than three decades. The Group has completed several residential projects encompassing 5.8 million square feet (msf) of constructed area. At present, the Group is developing four residential projects with a total saleable area of 3.6 msf in its Amanora Park Town project in Hadapsar, Pune. CRDPL's mall, which started operations in 2011, has a leasable area of 0.9 msf with an occupancy rate of 61% as on August 31, 2022.

Reputed tenant profile– CRDPL has remained a preferred destination for reputed brands like H&M, Vero Moda, Decathlon, and New in Vogue for U (NVU), among 100 other brands. Most of its tenants have been operating in the mall since its launch in 2011. The mall's proximity to key city areas such as Koregaon Park, Viman Nagar and Kharadi makes the project location advantageous.

Credit challenges

High vacancy risk – The company currently operates a mall with a total leasable area of 0.9 msf. As on August 31, 2022, the occupancy rate of the mall declined to 61% from 71% as on March 31, 2021 due to the exit of certain tenants. The risk is mitigated healthy pipeline of tenants. The company will also be susceptible to project implementation and market risks pertaining to the expansion project.

Vulnerability to external factors including outbreak of pandemic – The company is exposed to the risks from the cyclical nature in the sector and vulnerability to exogenous shocks such as the Covid-19 pandemic which could impact the cash flows.

Liquidity position: Adequate`

The liquidity position of CRDPL is adequate... As per the current occupancy, the monthly rental of Rs. 3.5 crore as against debt obligations of Rs. 2.1 crore. While there is under-collection in common area maintenance due to the low vacancy, the operating cash flows are expected to be adequate to meet the debt obligations. Further, comfort is derived from additional financial flexibility from commercial development (in the mall campus) as well as from parent. As on March 31, 2022 the company had unencumbered cash balances of Rs. 2.3 crore and DSRA balance of Rs. 6.5 crore.

Rating sensitivities

Positive factors – Significant improvement in occupancy of the mall leading to generation of surplus and reduction in leverage would support the rating.

Negative factors – Weakness in the mall operations leading to continued dependence on the parent may impact the rating. Further, any deterioration in the credit profile of CCL, or lack of timely support from CCL, or any weakening of CRDPL's linkages with CCL may lead to a rating downgrade.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Impact of implicit support expected from parent or group on an entity's credit rating |
| Parent/Group support | The rating assigned to CRDPL factors in the reasonable likelihood of its parent, CCL (rated [ICRA]BBB (Stable)), extending financial support to it because of close business linkages between them. We also expect CCL to be willing to extend financial support to CRDPL out of its need to protect its reputation from the consequences of a group entity's distress. Further, CCL also enjoys a consistent track record of having extended timely financial support to CRDPL, whenever a need has arisen. |
| Consolidation/Standalone | Standalone |

About the parent

City Corporation Limited is the flagship company of the Pune-based City Group, which is engaged in real estate development. CCL was incorporated in 2003 to develop Amanora Park Town, an integrated township project at Hadapsar, Pune, Maharashtra. At present, CCL is developing three projects—Gateway Towers, Adreno Towers and Gold Towers (phases 1 and 2). Along with real estate development, CCL also manages the township. CCL operates 'Amanora Club' as well, which provides sports and leisure facilities to township residents and other citizens of Pune. It has also installed a 1.6-MW wind energy unit at Satara (Maharashtra). CCL's subsidiary, City Realty And Development Pvt. Ltd (CRDPL) owns and operates Amanora Mall (0.9 msf), which is also part of the township. CRDPL is also constructing a retail-cum-office space within the mall premises with a leasable/saleable area of 0.9 msf.

About the company

CRDPL was incorporated in 2005 as a joint venture (JV) between Horizon Ventures (a retail-led mixed-use real estate focussed fund incorporated under the laws of Mauritius) and CCL, whose shareholdings in the company were 51% and 49%, respectively, as on March 31, 2016. In FY2017, CCL increased its stake to 55%, and in December 2017, it bought back 45% stake from the private equity fund through its wholly-owned subsidiary, Amanora Future Towers Private Limited which eventually has been merged with CCL and now, CRDPL has become a subsidiary of CCL.

CRDPL has constructed the shopping mall and office units at the Amanora Town Centre, which is part of a larger 400-acre township project, i.e., Amanora Park Town at Hadapsar in Pune. The mall commenced operations from August 2011. CRDPL has also developed and sold fully a residential project named Neo towers with a total saleable area of 6.9 Lacs Sq Ft. in the same township. The company is presently undertaking expansion at the mall premises.

Amanora Town Center is a mall sprawling over 0.9 million square feet (msf) with close to 200 store encompassing 1000 national and international brands. It is located close to key areas of Pune city such as Koregaon Park, Viman Nagar, and Kharadi

Key financial indicators (audited)

| CRDPL | FY2021 | FY2022 |
|--|--------|--------|
| Operating income | 33.1 | 36.9 |
| PAT | -21.6 | -24.8 |
| OPBDIT/OI | 39.8% | 43.7% |
| PAT/OI | -65.2% | -67.1% |
| Total outside liabilities/Tangible net worth (times) | 1.9 | 3.2 |
| Total debt/OPBDIT (times) | 20.8 | 17.5 |
| Interest coverage (times) | 0.4 | 0.5 |

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 | |
| | | | | | | Jul 24, 2020 | Apr 14, 2020 | Jun 24, 2019 | Jun 11, 2019 |
| 1 Term loans | Long term | 250.0 | 274.9 | [ICRA]BBB- (Stable) | [ICRA]BBB- (Negative) | [ICRA]BBB- (Negative) | [ICRA]BBB -@ | [ICRA]BBB (SO) (Stable) | |
| 2 Unallocated | Long term | - | -- | - | - | | | | Provisional [ICRA]BBB (SO) (Stable) |

@under Watch with Negative implications

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|----------------------------------|----------------------|
| Long-term fund-based – Term Loan | Simple |

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

Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|-----------------|------------------|-------------|----------|--------------------------|----------------------------|
| NA | Term Loan-I | FY2022 | 11% | FY2034 | 250.0 | [ICRA]BBB- (Stable) |

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not applicable

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