ICRA

August 08, 2017

Peninsula Land Limited (Revised)

Instruments*	Amount Rated (Rs. crore)	Rating Action
Non-convertible debenture programme	1,029.20 (reduced from 1,710)	[ICRA]A (Negative) reaffirmed; Outlook revised from 'Stable'
Commercial paper programme	175.00	[ICRA]A1 reaffirmed

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced ICRA A) outstanding on the Rs. 1029.20 crore[1] (reduced from Rs. 1,710 crore) Non-Convertible Debenture (NCD) and the short-term rating of [ICRA]A1 (pronounced ICRA A one) outstanding on the Rs. 175.00 crore[2] Commercial Paper (CP) of Peninsula Land Limited (PLL)[3]. The outlook on the long-term rating has been revised to 'Negative' from 'Stable'.

Rationale

The revision in rating outlook factors in the increase in refinancing risks for the company over the near term given the sizeable debt repayment obligations (~Rs. 760 crore to be repaid in FY2018) and the delays in the company's big-ticket land monetisation plans. The change in rating outlook also take into account the continued losses at operating level over the past three years, with the company yet to achieve revenue recognition in certain projects as well as significant cost escalation in some of the ongoing projects. The company is currently in talks for sale of some of its land parcels and ICRA notes that the timely receipt of sale proceeds from the land sale would be critical to support the cash flows of the company and would be a key rating sensitivity.

The reaffirmation of the ratings takes into consideration PLL's status as the flagship company of the Ashok Piramal group, the long-standing experience of the promoters and key personnel in real estate industry and PLL's established brand in Mumbai supported by the company's demonstrated track record of nearly two decades in the industry having developed well-known projects across all major real estate segments in the city. PLL currently has nine residential projects under execution, with a total saleable area of 3.79 million square feet (sqft), with nearly 50% of the area tied-up as of March 31, 2017. The ratings also take into account the improved collections from the ongoing residential projects, with nearly Rs. 530 crore of customer receipts during FY2017 (up from Rs. 422 crore in FY2016), supported by finalization of agreements and registration of sales. The ratings also factor PLL's willingness and focus to monetize land parcels located in non-core geographies which is expected to support the company's liquidity position as well as reduce its debt levels. PLL's existing land-bank is entirely paid for and all projects to be developed on the existing land-bank are residential projects where milestone-linked customer advances are expected to support cash flows during the project construction phase.

The ratings are, however, constrained by PLL's high debt levels (at ~Rs. 2,400 crore on a consolidated basis as of March 31, 2017) and the resulting increase in gearing level from 1.1 times as on March 31, 2016 to 1.5 times as on March 31, 2017. The financing requirements of the company remain high given the sizeable near-term debt repayment obligations as well as additional funds needed to provide an exit to the investors of a fund in which the company is a co-developer. While the company has plans to monetize

[1] *100 lakh = 1 crore = 10 million*

[2] *100 lakh = 1 crore = 10 million*

[3] *For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.*

its non-core assets in order to deleverage its balance sheet, the timeliness of the same remains important from a rating perspective. The ratings are also constrained by exposure to execution risks for the overall project portfolio considering the significant area under-development compared to completed projects. Further, PLL's sales velocity outside its traditional focus-market (Mumbai) is low. Given the high-ticket size for its projects, particularly Mumbai based projects, the sales tie-up is expected to remain lumpy.

Key rating drivers

Credit Strengths

- **Strong parentage and established position in the Mumbai real estate market** - PLL, the flagship of the Ashok Piramal Group (a diversified business group with interests in textiles, real estate and engineering), is a real estate development company with a portfolio that comprises commercial and residential developments majorly in western India. PLL has a strong brand recall in Mumbai with over 6.4 million sqft of area developed till date. The promoters have long-standing experience of over 17 years in the real estate industry.

- **Healthy revenue visibility -** PLL's portfolio comprises of nine residential projects aggregating to 3.79 million sqft of saleable area. Of these, four projects are located in Mumbai, while one each in Bangalore, Pune, Goa, Lonavala and Nashik. As of March 31, 2017, PLL had tied-up sale for 1.91 million sqft of area (~50% of the total saleable area). There has been an increase in sales tie-up in FY2017 with 0.57 million sqft sold as against 0.25 million sqft in FY2016 showcasing committed revenue visibility**.** Also, the collections improved (from Rs. 422 crore in FY2016 to Rs. 520 crore in FY2017; further collections of Rs. 253 crore in Q1FY2018) with the approvals and agreements related issues resolved for some key projects.

- **Existing land bank entirely paid for; all projects to be developed on existing land banks are residential ones, where execution can be supported by customer advances -** PLL's projects on its existing land banks are residential ones, where milestone-linked customer advances could support cash flows during the construction phase. Also, existing land bank are entirely paid for with no major capital expenditure for land acquisition on the cards; further willingness and ability to monetize land parcels provides financial flexibility.

Credit Weaknesses

- **Exposure to refinancing risks considering the significant debt repayment due in the near term** – The company's debt levels remain high owing to a large under-construction portfolio, delays in project launches and slower-than-expected completion of asset monetisation plans. With sizeable debt repayment obligations in the near term (~Rs.760 crore to be repaid in FY2018), the company is exposed to refinancing risks.
- **Losses at operating level profitability continues; significant decline at net level –** The company has been reporting weak operating margins in recent fiscals as the current projects being recognised under the P&L statement have seen cost escalations due to delays in execution / launches thereby impacting the profit margins at current sales realisations. Further, due to high interest burden and accounting adjustments related to IndAS (company reported adjustments related to fair valuation of investments of Rs. 39.7 crore and adjustment of deferred tax of Rs. 38.1 crore) resulted in net losses in FY2017.

- **Exposure to regulatory and execution risks -** The company is exposed to regulatory risk with delays in launches of its residential projects as well as deferment of collections owing to approval/regulatory issues. The company is also exposed to execution risks for the overall project portfolio considering the significant area under development (35% of project cost pending). Further, PLL's sales velocity in newer markets where its brand is relatively lesser-known is low.

- **Delays in asset monetisation plans; however, progress seen in sale of a large land parcel -** PLL has categorised some of the land parcels held by it as non-core assets and plans to divest off the same. The land sale plans have, however, proceeded at a slower-than-expected pace, thereby delaying its plans to deleverage the balance sheet. The company is currently in talks for sale of some of its land parcels. Timely completion of the land sale along with the other asset monetisation deals planned for the current fiscal would remain important from a credit perspective.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable Criteria
Corporate Credit Rating Methodology
Real Estate Entities

About the Company:
Incorporated in August 10, 1871 as a public limited company, Peninsula Land Limited (PLL) is a part of the Ashok Piramal Group. The company is in to real estate development with a portfolio comprising commercial, residential and retail developments. The projects include PLL's 'Ashok' product line in the residential sector and 'Peninsula' in the commercial sector. Since 1997, PLL has developed over 6.4 million square feet (sqft) of real estate projects in Mumbai. Most of the development by PLL in the past has been either on former textile mill lands owned by the group, or in joint development with the land owners. PLL has initiated the diversification of its operations outside of Mumbai by undertaking projects in cities such as Pune, Nashik, Lonavla, Bangalore and Goa. PLL also manages a Real Estate fund through a subsidiary, having co-invested in five projects with the fund.

Table: Key Financials of PLL (consolidated)

Particulars	**FY2016**	**FY2017**	**Q1FY2018 (P)**
Operating income (Rs. Crore)	113.5	269.7	75.3
PAT (Rs. Crore)	-46.0	-219.6	-31.3
OPBDIT/ OI (%)	-57.7%	-30.7%	36.0%
RoCE (%)	0.1%	-0.2%	
Total Debt/ TNW (times)	1.1	1.5	
Total Debt/ OPBDIT (times)	-30.7	-29.0	
Interest coverage (times)	-0.9	-0.5	

Status of non-cooperation with previous ICRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	**Rated amount (Rs. Crore)**	**Month - year & rating**	**Month - year & Rating in FY2017**	**Month - year & Rating in FY2016**	**Month - year & Rating in FY2015**
				August 2017	September 2016	September 2015	July 2014
1	Non-convertible debenture progamme	Long term	1029.2	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Commercial paper programme	Short term	175.0	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instruments

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE138A07439	Non Convertible Debenture	20-May-16	12.06%	20-May-18	4.15	[ICRA]A (Negative)
INE138A07496	Non Convertible Debenture	2-Jun-16	12.06%	2-Jun-18	4	[ICRA]A (Negative)
INE138A07413	Non Convertible Debenture	30-Dec-15	12.25%	30-Dec-17	6.9	[ICRA]A (Negative)
INE138A07462	Non Convertible Debenture	20-May-16	12.28%	20-May-19	7.9	[ICRA]A (Negative)
INE138A07447	Non Convertible Debenture	20-May-16	12.37%	20-May-18	3.05	[ICRA]A (Negative)
INE138A07504	Non Convertible Debenture	2-Jun-16	12.37%	2-Jun-18	10	[ICRA]A (Negative)
INE138A07421	Non Convertible Debenture	30-Dec-15	12.50%	30-Dec-18	15.1	[ICRA]A (Negative)
INE138A07470	Non Convertible Debenture	20-May-16	12.60%	20-May-19	8.93	[ICRA]A (Negative)
INE138A07454	Non Convertible Debenture	20-May-16	12.75%	20-May-18	3.16	[ICRA]A (Negative)
INE138A07512	Non Convertible Debenture	2-Jun-16	12.75%	2-Jun-18	9.64	[ICRA]A (Negative)
INE138A07538	Non Convertible Debenture	9-Sep-16	12.75%	9-Sep-19	78	[ICRA]A (Negative)
INE138A07389	Non Convertible Debenture	12-Sep-14	13.30%	12-Sep-17	65	[ICRA]A (Negative)
INE138A07397	Non Convertible Debenture	12-Sep-14	13.30%	12-Sep-18	65	[ICRA]A (Negative)
INE138A07405	Non Convertible Debenture	12-Sep-14	13.30%	12-Sep-19	60	[ICRA]A (Negative)
INE138A07249	Non Convertible Debenture	25-Feb-13	13%	25-Feb-18	50	[ICRA]A (Negative)
INE138A07264	Non Convertible Debenture	26-Feb-13	13%	26-Feb-18	27.8	[ICRA]A (Negative)
INE138A07306	Non Convertible Debenture	6-Nov-13	12.41%	6-Nov-18	0.7	[ICRA]A (Negative)
INE138A07314	Non Convertible Debenture	6-Nov-13	13%	6-Nov-18	2.6	[ICRA]A (Negative)
INE138A07348	Non Convertible Debenture	22-Nov-13	13%	22-Nov-18	50	[ICRA]A (Negative)
INE138A07363	Non Convertible Debenture	13-Dec-13	13%	13-Dec-18	50	[ICRA]A (Negative)
INE138A07488	Non Convertible Debenture	20-May-16	13%	20-May-19	22.81	[ICRA]A (Negative)

INE138A07520	Non Convertible Debenture	2-Jun-16	13%	2-Jun-19	6.36	[ICRA]A (Negative)
INE138A07546	Non Convertible Debenture	7-Oct-16	8%	7-Oct-22	450	[ICRA]A (Negative)
INE138A07082	Non Convertible Debenture	31-Jul-12	13.75%	31-Jul-17	3.9	[ICRA]A (Negative)
INE138A07124	Non Convertible Debenture	26-Sep-12	13.75%	26-Sep-17	1.05	[ICRA]A (Negative)
INE138A07157	Non Convertible Debenture	30-Oct-12	13.75%	30-Oct-17	3.95	[ICRA]A (Negative)
INE138A07165	Non Convertible Debenture	05-Nov-12	13%	05-Nov-17	17.5	[ICRA]A (Negative)
INE138A07231	Non Convertible Debenture	12-Dec-12	13.09%	12-Dec-17	0.5	[ICRA]A (Negative)
INE138A07256	Non Convertible Debenture	25-Feb-13	13%	25-Feb-17	0.4	[ICRA]A (Negative)
INE138A07272	Non Convertible Debenture	26-Feb-13	13%	26-Feb-17	0.05	[ICRA]A (Negative)
INE138A07280	Non Convertible Debenture	26-Feb-13	13%	26-Feb-17	0.44	[ICRA]A (Negative)
NA	Commercial Paper	--	~11.0%	December 2017	175.0	[ICRA]A1

Source: PLL

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