November 18, 2019

Peninsula Land Limited- Update on Material Event; rating downgraded to [ICRA]C

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	530.53	530.53	[ICRA]C; Downgraded from [ICRA]BB (Negative)
Total	**530.53**	**530.53**	

**Instrument details are provided in Annexure-1*

Material Event

Peninsula Land Limited (PLL or the company) has announced its quarterly results for quarter ended September 30, 2019 on November 14, 2019 wherein it has disclosed that during the current quarter there are certain delays in repayment of loans and interest to banks.

Impact of the Material Event

ICRA has downgraded the long-term rating to [ICRA]C (pronounced ICRA C) from [ICRA]BB (pronounced as ICRA double B) assigned earlier to the Rs. 530.53-crore non-convertible debenture programme of PLL.

Rationale

The rating downgrade takes into account irregularities in debt servicing by the company owing to poor liquidity position. The cash flow position of the company is severely impacted due to delays in collections of sizeable sold inventory as well as weak sales velocity in ongoing and completed projects. The company also faces high refinancing risk given sizeable debt repayment obligations (excluding collection linked payments) aggregating to Rs. 1,167 crore in the next twelve months. As on July 2019, the debt level of the company was high at Rs. 2,310 crore on a consolidated basis (including SPV level debt). The rating is also constrained by exposure to project execution risk for overall project portfolio considering significant area under development and weak financial risk profile characterised by considerable losses and deterioration in gearing levels.

Key rating drivers and their description

Credit challenges

Delays in debt servicing and high refinancing risks – Weak cash flow position of the company resulted in delays in debt servicing. The company's debt levels remain high with sizeable repayments in FY2020 and FY2021. However, the sales and collections from completed as well as ongoing projects remained poor. Going forward as well, PLL remains exposed to high refinancing risk with sizeable debt repayments obligations (excluding collection linked payments) aggregating to Rs. 1,167 crore in the next twelve months.

Weak operating performance – As on June 30, 2019, PLL sold ~70% of the total launched area of 49.73 lakh sq. ft. for a total sale value of Rs. 4,394 crore. However, out of this, sizeable quantum of collections of Rs. 1,685 crore were pending. Owing to weak demand in the real estate industry, the sales in many of the projects remained muted. Additionally, occupancy certificate is delayed in one of the large projects of the company and receivables of Rs. 245 crore are stuck for a long time.

Exposure to project execution risk – As against the budgeted cost, the company was yet to spend Rs. 1,198 crore towards completion of the projects as on June 30, 2019. Out of this, ~68% of the pending cost was to be incurred on a single project – Salsette 27 – which is in initial stage of construction. Thus, the company remains exposed to project execution risk. The ongoing weak cash flow position might further impact the execution of ongoing projects.

Deterioration in financial risk profile – The company's financial risk profile has weakened as characterized by the continued losses and resultant in deterioration in net worth, elevated debt levels and weakening of its debt coverage metrics. The company has reported consolidated operating loss of Rs. 355.3 crore in FY2019 compared to operating loss of Rs. 76.5 crore in FY2018 mainly because of thin project profitability. The operating losses remained at ~Rs. 45 crore in H1 FY2020. High interest expenses due to elevated debt levels and exceptional items (inventory write-downs and impairment of investments/loans extended to project SPVs) have also led to net losses of Rs. 597.7 crore in FY2019 compared to net losses of Rs. 453.3 crore in FY2018. The net losses were Rs. 227.0 crore in H1 FY2020. The gearing deteriorated from 4.8 times as on March 31, 2019 from 2.2 times as on March 31, 2018.

Liquidity position: Poor

PLL's liquidity remains poor owing to weak operating performance, resultant adverse cash flow position and large debt repayments due in near-to-medium term. Timely receipt of the cash inflows from pending collections and fresh sales in the ongoing projects would be essential to support the cash flow position. The company has consolidated cash balances of ~Rs. 43 crore as on September 2019, sizeable scheduled debt repayments of Rs. 1,167 crore over the next 12 months and considerable project cost outgo requirements translate into poor liquidity position.

Rating sensitivities

Positive triggers – ICRA could upgrade PLL's rating if the company demonstrates regularization in debt repayments for more than three months.

Negative triggers – Negative pressure on PLL's rating could arise if there is a delay in interest or principal repayment of ICRA rated NCDs.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Policy on Default Recognition Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group Support	Not Applicable
Consolidation / Standalone	Consolidation: ICRA has consolidated PLL along with its operational subsidiaries, joint ventures and associate companies (mentioned in Annexure 2) on account of the strong business and financial linkages between these entities.

About the company

Incorporated on 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 7.8 million square feet of real estate projects in Mumbai. Most of the development by PLL in the past has been either on the 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, Lonavala, Bangalore and Goa. PLL also manages a Real Estate fund through a subsidiary, having co-invested in five projects with the fund.

Key financial indicators (audited) - Consolidated

	FY2018	FY2019
Operating Income (Rs. crore)	497.6	327.8
PAT (Rs. crore)	-453.3	-597.7
OPBDIT/ OI (%)	-15.4%	-108.4%
RoCE (%)	-6.0%	-12.0%
Total Debt/ TNW (times)	2.2	4.8
Total Debt/ OPBDIT (times)	-33.3	-7.1
Interest coverage (times)	-0.4	-2.1

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2019		FY2018		FY2017
					18-Nov-2019	28-Aug-2019	25-Mar-2019	5-Oct-2018	23-Feb-2018	8-Aug-2017	7-Sep-2016
1	NCD	Long Term	530.53	450.0	[ICRA] C	[ICRA]BB (Negative)	[ICRA]BBB - (Negative)	[ICRA]BBB + (Negative)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA] A (Stable)

Amount in Rs. Crore

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: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE138A07 462	NCD	20-May-16	12.28%	20-May-19	7.90	[ICRA]C
INE138A07 470	NCD	20-May-16	12.60%	20-May-19	8.93	[ICRA]C
INE138A07 488	NCD	20-May-16	13%	20-May-19	22.81	[ICRA]C
INE138A07 520	NCD	2-Jun-16	13%	2-Jun-19	6.36	[ICRA]C
INE138A07 546	NCD	7-Oct-16	8%	7-Oct-22	450.00	[ICRA]C
Not Yet Placed	NCD	--	--	--	34.53	[ICRA]C

Source: Peninsula Land Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Rockfirst Real Estate Limited	100%	Full Consolidation
Truewin Realty Ltd	100%	Full Consolidation
Goodhome Realty Ltd	100%	Full Consolidation
Goodtime Real Estate Development Pvt. Ltd.	57%	Full Consolidation
RA Realty Ventures LLP	40%	Full Consolidation
Bridge View Real Estate Development LLP	50%	Full Consolidation

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About ICRA Limited:

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