June 30, 2021

Miraya Realty Private Limited: 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 (NCD) Programme	37.50	37.50	[ICRA]C+; downgraded from [ICRA]B-(Stable)
Total	**37.50**	**37.50**	

**Instrument details are provided in Annexure-1*

Rationale

The rating revision considers the exposure of Miraya Realty Private Limited (MRPL) to refinancing risks, as the maturity of the outstanding debentures of Rs. 75 crore is impending in September 2021 (revised from September 2020) and cash flows from the project Serendipity (BKC, Mumbai), within which MRPL hold units for sale, have remained weak thus far, with no incremental sales or collections over the past year. The committed receivables from tied up sales are also inadequate for meeting project and repayment obligations, thereby keeping the probability of cash flow mismatches going forward high. Market risks for the unsold inventory are also considerable, given the premium ticket size of the units. The recent rise in Covid-19 cases may also exacerbate the demand risks. The rating also takes into account the delays observed in project execution, which has adversely impacted the project cost, and resulted in cost overruns. While project completion was previously planned for December 2020 (revised from December 2019), the management has further revised the completion date to June 2021. However, as on March, 2021, around 23% of the project cost was remaining to be incurred, resulting in high probability of time overruns, which may, in turn, lead to regulatory risks, as the timeline for completion as per RERA would get exceeded.

The rating, however, factors in the long track record of the promoters (the Forum Group) in real estate development, with an experience of over three decades. Serendipity, however, represents the first foray of The Forum Group into the Mumbai real estate market. The project is being jointly developed by Forum Homes Private Limited (FHPL) and the Omkar Group, which has a long track record in slum rehabilitation scheme (SRS) projects in the Mumbai market. The rating also draws comfort from the project's favourable location in the Bandra–Kurla Complex (BKC), which has emerged as an alternative Central Business District (CBD) in Mumbai.

Key rating drivers and their description

Credit strengths

Promoters' experience and track record in real estate sector - MRPL is a part of the Forum Realty Group of companies promoted by Sri S. M. Shroff and his son, Sri Rahul Saraf, who joined the business in 1987. The Group primarily develops real estate and caters to the information technology, residential and retail spaces in Kolkata through various Group companies. The Group has developed around 17 lakh square feet of commercial space. Although Serendipity is the Group's first project in Mumbai, it is being jointly developed with the Omkar Group, which has along track record in SRS projects. A Forum Group company, Forum Homes Private Limited (FHPL), is developing the project, and as part of the arrangement with MRPL, will market and sell MRPL's 18 identified units, along with the other units of the project.

Attractive location of the project in Bandra Kurla Complex in Mumbai- The project is located near Bharat Nagar at BKC. Over the last few years, BKC has gained prominence as an alternative CBD with a significant number of corporate houses. The micro-market also enjoys well-developed social and physical infrastructure. Its proximity to other well-developed micro-markets of Mumbai, like Bandra West, Juhu and Andheri, add to the advantage. Serendipity is centrally located between Bandra East and

BKC. It is close to the corporate hub of BKC and Western Express Highway (~1.5 km), which provides ease of accessibility and connectivity.

Credit challenges

Refinancing risk and weak sales velocity lead to high probability of cash flow mismatches - MRPL has issued NCDs of Rs. 75.00 crore for the purchase of 18 apartments from FHPL and has deployed these funds in the execution of the project, Serendipity. These debentures (comprising three series) are to be redeemed in September 2021 (revised from September 2020), along with an internal rate of return of 16.5% on Series 1A, and 22% on Series 1B and Series 2. However, cash flows from the project have remained weak thus far, with no incremental sales or collections over the past year. The committed receivables from tied up sales are also inadequate for meeting project and repayment obligations, thereby keeping the probability of cash flow mismatches going forward high.

High market risk given the premium ticket size; exacerbated by Covid-19 pandemic- The project has received bookings for 39% of the total units (34 units booked out of 95 units). However, no incremental sale has occurred over the past one year, and none of MRPL's identified units have been booked till March 2021. This is mainly due to the premium ticket size of the units. The recent rise in Covid-19 cases may also exacerbate the demand risks.

Exposure to high execution and regulatory risks, with RERA timeline exceeded - The rating takes into account the delays observed in project execution, which has adversely impacted the project cost, and resulted in cost overruns. While project completion was previously planned for December 2020 (revised from December 2019), the management has further revised the completion date to June 2021. However, as on March, 2021, around 23% of the project cost was remaining to be incurred, resulting in high probability of time overruns, which may, in turn, lead to regulatory risks, as the timeline for completion as per RERA would get exceeded. Moreover, the fire authority approval is still pending for the rehabilitation building due to presence of slums in adjacent area. The timely receipt of the occupancy certificate for rehab and sale building will remain critical for the project's timely completion.

Liquidity position: Stretched

The company's liquidity profile is **stretched** as the bookings have been low and cash flows remain weak. While MRPL has not sold any of the identified units, the NCDs of Rs. 74.50 crore and Optionally convertible debentures of Rs. 9.90 crore are due for redemption in September 2021 (revised from September 2020) along with the pre-determined IRR (ranging from 16.5% to 22%), which further places pressure on the liquidity position. The company has been taking extension for the redemption of these NCDs over the last four years, and gong forward as well, the company will either have to take further time extension or depend on promoter funds to meet the repayment.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is an improvement in bookings and thereby the collections or if there is a capital infusion by promoters to improve the company's liquidity

Negative factors – Negative pressure on MRPL's rating could arise in case of continuing pressure on liquidity and further delay in project completion leading to cost overrun

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for entities in Real Estate Entities](#)
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

MRPL is a part of the Forum Realty Group of companies, promoted by Sri S. M. Saraf and his son, Sri Rahul Saraf, who joined the business in 1987. The Group primarily develops real estate and caters to the information technology, residential and retail spaces in Kolkata through various Group companies. The Group has developed around 17 lakh square feet of commercial real estate till date.

MRPL was floated for NCD issuance to support FHPL's project, Serendipity, the residential project in BKC. The company has acquired 18 housing units in Serendipity, funded through these NCDs, which has been shown as a sale for FHPL. FHPL will sell these units along with the rest of the project. The sales proceeds, thus generated, will be utilised to provide an exit to the investor (i.e., repayment of the NCD with returns).

MRPL follows project completion method of accounting and has not reported any operating income (OI) till FY2021 as no income has been recognized from the sale of the identified units.

Key financial indicators (audited)

MRPL	FY2020	FY2021
Operating Income (Rs. crore)	-	-
PAT (Rs. crore)	-51.6	-57.8
OPBDIT/OI (%)	-	-
PAT/OI (%)	-	-
Total Outside Liabilities/Tangible Net Worth (times)	-2.5	-1.8
Total Debt/OPBDIT (times)	-5.9	-6.7
Interest Coverage (times)	-0.4	- 0.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jun 30, 2021	-	Mar 31, 2020	Dec 19, 2018
1	NCD	Long-term	37.50	37.50	[ICRA]C+	-	[ICRA]B- (Stable)	[ICRA]B+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	Very 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 analyzing 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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
INE244S08187	NCD	Feb 2015	22% IRR	Sep 18, 2021	37.50	[ICRA]C+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

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