

December 27, 2022

Merlin Projects Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Working Capital Facilities	12.00	12.00	[ICRA]A (Stable); reaffirmed
Fund-based Term Loan	284.00	203.66	[ICRA]A (Stable); reaffirmed
Unallocated Limits	20.00	100.34	[ICRA]A (Stable)/[ICRA]A1; reaffirmed
Total	316.00	316.00	

*Instrument details are provided in Annexure-I

Rationale

For arriving at Merlin Project Limited's (MPL) ratings, ICRA has consolidated the business and financial profile of the operational entities in the Merlin Group, having ongoing projects, leased properties and/or outstanding debt, given the close business, financial and managerial linkages between the entities.

The ratings reaffirmation factors in the established market position of the Merlin Group, with a track record of over four decades in the real estate industry, particularly in and around Kolkata, along with its strong project execution and sales capabilities. The ratings consider the healthy booking levels at 77% of the total launched area of 7.7 million square feet (msf), healthy cash flow adequacy (committed receivables/pending cost + outstanding debt) of 75% as of June 2022 and an expected increase in collections of around 55-60% YoY in FY2023. Additionally, the Group had comfortable leverage as measured by Net Debt/CFO of 2.1 times as of March 2022, which is estimated to remain below 2 times as of March 2023. The borrowing levels across the Group's projects have remained low. As on June 30, 2022, around 70% of the Group's external debt of Rs. 292 crore comprised lease rental discounting (LRD) loans, against lease rentals from a commercial portfolio of around 0.31 msf, which is expected to generate an annual rental of around Rs. 48 crore for FY2023. Moreover, the fully paid-up land bank imparts financial flexibility to the Group. ICRA also notes the Group's favourably located retail portfolio, which generates a regular rental income, further supporting the cash flows.

The ratings, however, remain constrained by moderate scale as reflected by area sold of ~2 msf during May 2021 to June 2022 and collections of around Rs. 365 crore in FY2022. The collections are expected to increase by 55-60% in FY2023. Notwithstanding this increase, the Group's scale of operations remains moderate.

The Group's operations are highly concentrated in and around Kolkata, thereby exposing it to fluctuations in a single market's performance. As on June 30, 2022, the Group had 5.1 msf of area under development. It proposes to launch 1.5-2 msf every year going forward, which exposes the Group to execution risks. The company also remains exposed to external factors such as the inherent cyclicity in the real estate industry and regulatory risks.

The Stable outlook on the ratings reflects ICRA's opinion that MPL's credit profile will remain stable on the back of steady cash flows from the ongoing projects, given the high committed receivables, adequate collection efficiency and low leverage level.

Key rating drivers and their description

Credit strengths

Established real estate developer with long track record and strong market position in eastern India - The Merlin Group has an established track record of over four decades in the real estate industry, particularly in and around Kolkata. The Group has strong project execution and sales capabilities, as demonstrated through consistent delivery of good quality projects covering more than 10 msf of area across residential, commercial, and retail segments. The Group also has a leased retail portfolio of around 0.31 msf across two properties, with average occupancy levels of around 93% as of June 2022.

Healthy booking levels with comfortable cash flow adequacy - At present, the Group has 15 ongoing projects, having a total saleable area of around 5.1 msf and 9 completed projects with a saleable area of 2.61 msf. As on June 30, 2022, the Group had reported healthy bookings of 77% of the launched area of 7.7 msf, healthy cash flow adequacy of 75% as of June 2022 and an expected increase in collections of around 55-60% YoY in FY2023. However, ICRA notes that the offtake risks remain for the unsold inventory in the ongoing projects.

Comfortable leverage levels, with expected low reliance on debt going forward - The Group has a conservative approach towards debt, with the debt primarily comprising LRD loan availed against retail properties, which accounted for almost 70% of the external debt outstanding of ~Rs. 292 crore for the Group as of June 2022. The Group's leverage remains comfortable as measured by Net Debt/CFO of 2.1 times as of March 2022, which is estimated to remain below 2 times as of March 2023, with expected low reliance on debt for future residential projects, given the healthy track record of funding projects primarily through customer advances. The Group has a considerable fully paid-up land bank, which in addition to providing visibility on future projects serves as a source of financial flexibility.

Rental income from favourably located retail properties supports cash flows; presence of DSRA and escrow mechanism in loans - The Merlin Group has 0.31 msf of leasable area across two retail properties, Acropolis Mall, located on Rajdanga Main Road, Kolkata, and Homeland Mall, located at Mukherjee Road in Kolkata. The Acropolis Mall is favourably located in an upcoming commercial hub and thus, benefits from a populous catchment area, resulting in high overall occupancy of 91% as on June 30, 2022, with expected annual rentals of around Rs. 41 crore for FY2023. Further, the presence of a DSRA equivalent to one quarter's interest and principal repayment, as well as an escrow structure, provides additional comfort.

Credit challenges

Moderate scale and geographically concentrated operations - The Group sold an incremental area of ~2 msf during May 2021 to June 2022. The collections in FY2022 stood at around Rs. 365 crore, which are expected to increase by 55-60% in FY2023. Notwithstanding this increase, the Group's scale of operations remains moderate. At present, the Merlin Group has around 5.1 msf of area being developed in and around Kolkata, thereby exposing the Group to geographical concentration risks, although ICRA notes that the projects are diverse in the end-user segments. The Group has participated in the development (49% stake) of a multi-level car parking and commercial space at the Chennai Airport under Public Private Partnership mode with the Airport Authority of India. Moreover, the Group is slowly expanding into other geographies such as Odisha, Chennai, Chhattisgarh, Pune, Bhubaneswar, and Ahmedabad.

Exposure to execution risk due to intermediate stage of ongoing projects and significant project pipeline - Most of the Group's ongoing projects are at intermediate stages of development, which along with periodic project launches, exposes the Group to execution risks for the balance construction. Till June 2022, around 32% of the total project cost was incurred on an aggregate basis. Further, the extent of launches (expected at 1.5-2 msf every year) as well as the cost and funding pattern of the upcoming projects remains a key monitorable.

Susceptibility of real estate sector to economic cycles - Real estate developers, including the Merlin Group, remain exposed to the inherent cyclicity of the real estate sector, which can result in volatility in cash flows.

Liquidity position: Adequate

The Group's liquidity is expected to remain adequate with unencumbered cash and liquid balances of around Rs. 43 crore as on March 31, 2022 and undrawn limits of around Rs. 170 crore, and healthy committed receivables of around Rs. 1,077 crore from the sold area as on June 30, 2022. Debt repayments for construction loans are primarily linked to project collections, and scheduled repayments remain limited over the near term due to long tenure of the LRD loan. Moreover, the Group maintains a DSRA equivalent to one quarter of principal and interest servicing on the LRD loan availed against retail properties.

Rating sensitivities

Positive factors - The ratings may be upgraded if there is a significant increase in scale and collections, resulting in an improvement in the cash flows, while maintaining low leverage and healthy liquidity on a sustained basis. Increased geographical diversity would also be a key credit positive.

Negative factors - Negative pressure on the ratings could arise in case of moderation in scale, and/or slowdown in project execution or collections resulting in deterioration in the Group's financial risk profile, leading to increased debt levels. Further, any large debt-funded investments in land bank or other capital expenditure may also impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Real Estate Rating Approach - Lease Rental Discounting (LRD) Rating Approach - Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the operational and financial profile of entities in the Merlin Group, having ongoing projects, leased properties and/or outstanding debt (as mentioned in Annexure II), given the close business, financial and managerial linkages between them.

About the company

Established in 1976 as a partnership firm and converted to a public limited company in 1992, Merlin Projects Limited is the flagship company of the Kolkata-based Merlin Group, having over four decades of experience in the realty sector. The Group has developed over 100 residential and commercial complexes and 150 independent bungalows, with a total constructed area more than 10 msf, mostly in and around Kolkata. The Group has some presence in other parts of India with various residential and commercial projects at Chennai, Chhattisgarh, Pune, Bhubaneswar, and Ahmedabad.

Key financial indicators (audited)

MPL (Standalone)	FY2021	FY2022
Operating income	69.4	63.4
PAT	25.1	21.2
OPBDIT/OI	6.6%	-5.8%
PAT/OI	36.2%	33.5%
Total outside liabilities/Tangible net worth (times)	1.2	1.8
Total debt/OPBDIT (times)	15.6	(27.8)
Interest coverage (times)	0.8	(0.5)

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; All ratios as per ICRA's calculations

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 on June 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2019
				Dec 27, 2022	Sep 21, 2021	Jun 05, 2020	Mar 08, 2019
1 Working Capital Facilities	Long term	12.00	NA	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Term Loan	Long term	203.66	52.61	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3 Unallocated Limits	Long term/short term	100.34	NA	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term -Working Capital Facilities	Simple
Long term -Term Loan	Simple
Long term/Short term -Unallocated Limits	NA

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital Facilities	NA	NA	NA	12.00	[ICRA]A (Stable)
NA	Term Loan	March 2019	8.30%	March 2028	30.10	[ICRA]A (Stable)
NA	Term Loan	July 2020	9.50%	July 2025	10.56	[ICRA]A (Stable)
NA	Term Loan	August 2021	11.60%	FY 2028	121.00	[ICRA]A (Stable)
NA	Term Loan	March 2020	11.80%	March 2026	42.00	[ICRA]A (Stable)
NA	Unallocated Limits	NA	NA	NA	100.34	[ICRA]A (Stable)/ [ICRA]A1

Source: Company data

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company/Firm Name	Ownership	Consolidation Approach
Merlin Projects Limited	100% (rated entity)	Full Consolidation
Merlin Acropolis Projects Pvt Ltd.	100%	Full Consolidation
Acropolis Maintenance Services Pvt Ltd	100%	Full Consolidation
Bengal Merlin Housing Ltd	100%	Full Consolidation
PS Merlin Developers LLP	100%	Full Consolidation
Merlin Developments	100%	Full Consolidation
Merlin Real Estate LLP	100%	Full Consolidation
Merlin Ganges Projects	50%	Proportional Consolidation
Elita Garden Vista Project Pvt Ltd	37.5%	Proportional Consolidation
Surekha Merlin Promoters Pvt Ltd	45%	Proportional Consolidation
Meenabakam Realty Private Limited	49%	Proportional Consolidation

Source: Annual report; *ICRA notes that while there are several other entities within the Group, none of the other entities have ongoing projects or outstanding debt at present.

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