

January 30, 2023

South City Projects (Kolkata) Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT- Fund Based Term Loan	891.13	723.60	[ICRA] A- (Stable); reaffirmed
LT-Fund Based OD limits	52.45	10.00	[ICRA] A- (Stable); reaffirmed
LT/ST Non fund-based limits	7.53	7.53	[ICRA] A- (Stable)/ [ICRA] A2+; reaffirmed
LT – Unallocated	0.0	209.98	[ICRA] A- (Stable); reaffirmed
Total	951.11	951.11	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation of South City Group's¹ favorably factors in the established track record of the company's sponsors in real estate development and experience in managing diverse portfolios. The rating further factors in the strong position of the Group's key asset - South City Mall, Kolkata – which has a healthy occupancy level of 99% with diverse and reputed lessees. SCPL's net debt is estimated around Rs. 699 crore as on March 2023 from Rs. 811 crore as on March 2022 backed by strong lease rentals and collections from sale of Pinnacle project, and of the total gross debt outstanding as of November 2022, LRD debt against South City Mall accounts for 64%. Further, the cash flow adequacy² for the ongoing projects (on sale model) is healthy at 65% as of November 2022. Additionally, on a consolidated basis across its projects, the company has a comfortable leverage position, with expected Net debt/Cash flow from operations of around 2.3 times as on March 2023.

The rating is however constrained by the high marketing risk for its residential project, South City Altair in Sri Lanka, as the sales velocity for the project has remained modest. ICRA notes the delays and slow sales momentum witnessed in South City Altair over the last 18 months due to past litigation along with the economic crises in Sri Lanka has impacted the project's performance. Although litigation issues have since been resolved, the project remains exposed to political and economic challenges prevailing in Sri Lanka. Nevertheless, ICRA notes the exposure of this project to limited debt which is 100% backed by mix of fixed deposits and bonds. Further, the company continues to remain exposed to marketing risks of the unsold inventory spread across 6.7 lac sqft across its projects along with moderate residual execution risk for South City Retreat project with 30% of the area left to be completed as of November 2022. The real estate sector is marked by a highly fragmented market structure because of the presence of a large number of players. In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which in turn render the Group's sales vulnerable to any downturn in demand.

The stable outlook on long term rating of the company reflects ICRA's opinion that the company will continue to benefit from its healthy rental collections from its leased assets, its comfortable leverage position and robust cash flow adequacy ratio of ongoing-for-sale-projects.

¹For arriving at South City Project (Kolkata) Limited's (SCPL) rating, ICRA has taken a consolidated view of SCPL and its subsidiaries given the close business, financial and managerial linkages among the entities. Please refer to analytical approach on page 3 and annexure 2 on page 5 for list of entities consolidated.

²Cash flow adequacy=Committed receivables/(Pending cost + Non-LRD debt outstanding); it includes the receivables and pending cost pertaining to residential (South City Altair and South City Retreat) and commercial projects (South City Infra Park and South City Business Park).

Key rating drivers and their description

Credit strengths

Sponsor groups with established track record in real estate development and experience in managing diverse portfolio: All the six promoter groups of SCPL have rich experience in the real estate industry with a long track record. The projects executed by the sponsor groups include townships, residential towers, mall, IT parks, commercial projects, stadiums, resorts, hospitals and schools. The operations of SCPL are directly managed by the sponsors, collectively. Moreover, there has been demonstrated track record of financial support from all the sponsors in the past, which provides comfort.

Healthy occupancy level of 99% in South City Mall; healthy cash flow adequacy for ongoing projects on sale model: South City Mall, located in Prince Anwar Shah Road, Kolkata, is the key asset of SCPL. It has been operational since 2008 and currently enjoys 99% occupancy levels with a reputed lessee profile and provides healthy rental cashflows to the company. The company's other commercial property, South City Pinnacle, has been sold by the company in FY2023 for a total consideration of around Rs 115 crore and the proceeds from the sale has been used by the company for repayment of its term debt. South City Business Park, Kolkata, (office project) is partially sold around 1.24 lac sqft area has been sold till November 2022, and the company intends to sell the balance area going forward. Sales for South City Anmol Infra Park, Kolkata is progressing well and till November 2022 company had already sold around 90% of the area. Further, the cash flow adequacy³ for the ongoing projects (on sale model) is healthy at 65% as of November 2022.

Comfortable leverage: The company only has LRD debt against its South City Mall and all other projects of the company are debt free. SCPL's net debt is estimated around Rs. 699 crore as on March 2023 from Rs. 811 crore as on March 2022 backed by strong lease rentals and collections from sale of Pinnacle project, and of the total gross debt outstanding as of November 2022, LRD debt against South City Mall accounts for 64%. Additionally, on a consolidated basis across its projects, the company has a comfortable leverage position, with expected Net debt/Cash flow from operations of around 2.3 times as on March 2023 and 1.6 times as of March 2024.

Credit challenges

Exposure to marketing risks for the ongoing projects: The marketing risk remains high in the residential projects- South City Retreat and South City Altair - as the sales velocity for both projects has remained modest and 37% of the inventory in South City Altair and 27% in South City Retreat remains unsold at present. The marketing risk also remains for South City Business Park, which was offered for sale from January 2021, and 43% of area is still pending to be tied up for sale. While most projects are complete, residual execution risks remain for the projects South City Retreat which have achieved 70% project progress thus far. ICRA notes that no further launches are expected over the near-term.

Project undertaken in Sri Lanka witnessed delays and slow sales momentum due to past litigation and remains exposed to political and economic challenges prevailing in Sri Lanka: The South City Altair project slowed down due to a dispute with a minority shareholder coupled with the covid pandemic leading to slow sales momentum. However, the project is now complete, and the dispute has been resolved. The gross outstanding debt on the project is around Rs 311 crore which is fully backed by lien marked FDs and bonds of SCPL of equivalent amount. The company has committed receivables of Rs 179 crore as of November 2022 as against the pending cost on the project is ~Rs 50 crores. Further, the company continues to remain exposed to marketing risks of the unsold inventory spread across 6.7 lac sqft across its projects. While the committed cash flows are adequate to meet project construction, ICRA notes that the project remains exposed to geopolitical risks and economic situation in Sri Lanka. The company has 100% FD backed SBLC outstanding against this project.

³Cash flow adequacy=Committed receivables/(Pending cost + Non-LRD debt outstanding); it includes the receivables and pending cost pertaining to residential (South City Altair and South City Retreat) and commercial projects (South City Infra Park and South City Business Park).

Exposure to risks and cyclical in real estate sector – The real estate sector is marked by a highly fragmented market structure because of the presence of a large number of players. In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which in turn render the Group's sales vulnerable to any downturn in demand.

Liquidity position: Adequate

The company has an adequate liquidity position, with unencumbered cash and bank balance of Rs. 18 crore and unutilized overdraft balance of Rs. 8 crore as of January 2023. The company's debt repayment obligation in FY2023 is around Rs 53 crore and in FY2024 is Rs 48 crore which is estimated to be comfortably met through its operating cashflows. Further, the company has also prepaid Rs 102 crore of term loan in FY2023 through its strong internal accruals. The company has limited capex plans over the medium term.

Rating sensitivities

Positive factors – The ratings might be upgraded in case of significant increase in scale of operations backed by pickup in sales and collections from residential projects, while maintaining a healthy rental inflow of company's flagship mall as well as a healthy leverage and liquidity position.

Negative factors – The rating might be downgraded in case of sustained decline in rental income of company's flagship mall, continuing muted sale and collections in its Altair project or any significant debt-funded expansion / investment adversely impacting the debt protection metrics or liquidity position. Further, decline in DSCR below 1.25x on sustained basis may put pressure on rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities Rating Methodology Lease Rental Discounting
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidated ICRA has consolidated the SCPL's share of cash flows of the projects being undertaken by group companies - Indoccean Developers Private Limited, Bengal Anmol South City Anmol Infrastructure Limited and South City Anmol Infra Park LLP, given the common promoters and strong operational, managerial and financial linkages. Further, SCPL holds 70% shareholding in South City Infra Park LLP and Bengal Anmol South City Anmol Infrastructure Limited, and 100% stake in Indoccean Developers Pvt Ltd.

About the company

SCPL, incorporated in 1995, is a consortium of six real estate developers of Kolkata: Emami Group, Rameswara Group, Shrachi Group, Sureka Group, Merlin Group and JB Group came together to form a consortium South City Projects (Kolkata) Ltd. The company undertakes commercial and residential real estate development in Kolkata and has developed commercial projects, luxury flats and South city international school. SCPL along with its subsidiaries, Indoccean Developers Private Limited, Bengal Anmol South City Anmol Infrastructure Limited and South City Infra Park LLP, currently has 6 ongoing projects- South City Mall, South City Business Park, South City Anmol Infra, South City Pinnacle, South City Retreat and South City Altair.

Key financial indicators (audited)

SVPBL Standalone	FY2021	FY2022
Operating income	125.9	214.1
PAT	0.2	27.3
OPBDIT/OI	65.5%	55.0%
PAT/OI	0.2%	12.7%
Total outside liabilities/Tangible net worth (times)	1.8	1.7
Total debt/OPBDIT (times)	10.5	7.5
Interest coverage (times)	0.9	1.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company annual reports, ICRA Research.

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)* as on November 2022	Date & Rating in Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					January 30, 2023	October 01, 2021	-	-	-
1	Fund based term loan	Long Term	723.60	676.20	[ICRA] A-(Stable)	[ICRA] A-(Stable)	-	-	-
2	Fund based overdraft limits	Long Term	10.00	3.37	[ICRA] A-(Stable)	[ICRA] A-(Stable)	-	-	-
3	Non fund-based limits	Long term/ Short term	7.53	-	[ICRA] A-(Stable)/ [ICRA] A2+	[ICRA] A-(Stable)/ [ICRA] A2+	-	-	-
4	Long term Unallocated	Long Term	209.98	-	[ICRA] A-(Stable)	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term – Fund based term loan	Simple
Long term – Fund based overdraft limits	Simple
Long term/Short term – Non fund based limits	Complex
Long Term Unallocated	Not applicable

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	Term Loan 1	FY2022	7.40%	FY2033	417.43	[ICRA] A- (Stable)
NA	Term Loan 2	FY2022	7.40%	FY2033	306.17	[ICRA] A- (Stable)
NA	Overdraft limits	-	-	FY2030	10.0	[ICRA] A- (Stable)
NA	Non fund-based limits	-	-	-	7.53	[ICRA] A- (Stable)/ [ICRA] A2+
NA	Unallocated	-	-	-	209.98	[ICRA] A- (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis:

Company Name	SCPL Ownership	Consolidated approach
South City Projects (Kolkata) Limited	100% (rated entity)	Full Consolidation
Indocean Developers Private Limited	100%	Consolidation of cash flows
Bengal Anmol South City Anmol Infrastructure Limited	70%	Consolidation of 70% of cash flows
South City Anmol Infra Park	70%	Consolidation of 70% of cash flows

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