

March 10, 2023

SGH Realty LLP: Rating upgraded to [ICRA]A- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	421.00	421.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Long-term – Interchangeable#	(100.00)	(100.00)	
Long-term – Fund-based/Non-Fund based	9.00	9.00	
Total	430.00	430.00	

*Instrument details are provided in Annexure-I

- Includes three facilities (dropline overdraft, letter of credit, bank guarantee) which are sublimit to the term loan facility

Rationale

The rating upgrade for SGH Realty LLP (SRL) factors in the healthy leasing of ~91% as of January 2023 against 61% as of December 2021 with remaining area expected to be leased by in the near term. Further, the mall became operational with Date of Commercial Commencement of Operations (DCCO) on February 26, 2023. Backed by healthy leasing levels, the debt to NOI (at current leasing) remains comfortable thereby mitigating the refinancing risk for the Construction Finance (CF) loan¹ to a large extent. ICRA expects SRL to convert its CF loan to lease rental discounting (LRD) loan by August 2023 at a leverage² of around 5.0 times. Consequently, the coverage metrics are expected to remain comfortable.

The rating also factors in the mall being operated under the Palladium brand of Phoenix Mills Limited (PML) at an attractive and premium location in Ahmedabad, i.e., S G Highway. The good connectivity and attractive catchment area are likely to support healthy footfalls. The mall is operated by PML, the 50% shareholder of SRL, which is one of the largest retail mall developers with strong brand strength and operational track record of over three decades. The PML Group has established brands in the retail mall segment, such as Phoenix Palladium and Phoenix Market City. PML is using the premium brand, Palladium, for SRL, which in ICRA's opinion would persuade PML to provide financial support to SRL to protect its reputation from the consequences of a Group entity's distress.

The ramp-up of occupancy, footfalls and trading values remains to be seen. It is also exposed to geographical and asset concentration risks, which are inherent to entities with single projects. SRL's revenues are exposed to adverse macroeconomic and external conditions such as the Covid-19 pandemic, which could impact the company's operations.

The outlook on the rating is Stable, supported by healthy occupancy levels, strong brand name, comfortable debt protection metrics and PML's expertise in mall operations.

Key rating drivers and their description

Credit strengths

Strong business profile and established track record of PML in retail mall segment - SRL is a 50:50 joint venture between PML and Bsafal Group. The mall is operated by PML, which is one of the largest retail mall developers with strong brand strength and operational track record of over three decades. The PML Group has established brands in the retail mall segment, such as Phoenix Palladium and Phoenix Market City. PML is using premium brand, Palladium, for SRL, which in ICRA's opinion would persuade PML to provide financial support to SRL to protect its reputation from the consequences of a Group entity's distress.

¹ has a bullet repayment due in August 2023

² Debt to annualized NOI at current leasing levels

Premium location advantage and good connectivity - The mall will have a chargeable area of ~7.5 lakh square feet (sft) and the property is located at a favorable and premium location in Ahmedabad, i.e., S G Highway. Further, the location has an attractive catchment area due to the presence of premium residential development nearby. The good connectivity and attractive catchment area are likely support healthy footfalls.

Healthy leasing levels: As of January 2023, the leasing stood at ~91% with remaining area expected to be leased in the near term. The mall has signed long-term lease agreements with reputed tenants viz PVR, Pantaloons, Lifestyle, Reliance Digital, Reliance Trends, Hamleys etc., with top 10 tenants occupying around 27-28% of chargeable area. Backed by healthy leasing levels, the debt to NOI (at current leasing) remains comfortable thereby mitigating the refinancing risk for the construction finance loan to a large extent. ICRA expects SRL to convert its CF loan to LRD loan by August 2023 at a leverage of around 5.0 times. Consequently, the coverage metrics are expected to remain comfortable.

Credit challenges

Stabilization of operations remains to be seen: The mall has started operations on February 26, 2023, and ramp up of occupancy, footfalls and trading activity remains to be seen. Currently, around 70 stores are operational out of 228 stores, the balance stores are expected start operating in a phased manner in next 3-6 months.

Geographical and asset concentration risks & vulnerability to external factors: As SRL is a single project SPV, it is exposed to geographical and asset concentration risks, which are inherent in companies with single projects. In addition, SRL's revenues are exposed to adverse macroeconomic and external conditions such as the Covid-19 pandemic, which could impact the tenants' business risk profiles.

Liquidity position: Adequate

Company's liquidity position is adequate. Low project leverage, healthy leasing and strong promoter mitigates the refinancing risk for the rated instrument to a large extent. The company is expected to refinance the outstanding CF loan by August 2023.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if higher occupancy levels are sustained along with healthy footfalls and trading values resulting in healthy cash flow from operations. Specific credit metrics that could lead to rating upgrade include 5-year average DSCR of more than 1.3 times on a sustained basis.

Negative factors – Negative pressure on the rating could emerge if there is material decline in occupancy or rent rates and/or significant increase in indebtedness than expected resulting in weakening of debt coverage and leverage metrics on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Rating approach-Implicit support from Parent or Group
Parent/Group support	ICRA expects PML to be willing to extend financial support to SRL, should there be a need, given the high strategic importance that SRL holds for meeting PML's diversification objectives. PML is using premium brand, Palladium, for the mall developed by SRL, which in ICRA's opinion would persuade PML to provide financial support to SRL to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Standalone

About the company

SGH Realty LLP was incorporated in 2017. The firm is jointly owned by The Phoenix Mills Group and BSafal Group. The firm is undertaking the construction of a retail mall – Palladium – in Ahmedabad, Gujarat. The mall is built on a land parcel of 5.2 acres and the gross chargeable area of the mall will be ~7.5 lakh sq ft. The mall was opened with DCCO on February 26, 2023.

Key financial indicators (audited): Not applicable being a project stage company.

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 of Jan 31, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Mar 10, 2023	Dec 17, 2021	Sep 4, 2020	-
1 Term loans	Long term	421.0	356.0	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2 Fund Based/Non-Fund Based Facilities [#]	Long term	(100.0)	--	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
3 Fund Based/Non-Fund Based Facilities	Long term	9.0	--	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-

[#]Includes three facilities (dropline overdraft, letter of credit, bank guarantee) which are sublimit to the term loan facility

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Fund Based/NonFund Based Facilities [#]	Simple
Fund Based/NonFund Based Facilities	Simple

[#] Sublimit of Term Loans

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 loans	September 2019	NA	August 2023	421.0	[ICRA]A- (Stable)
NA	Fund Based/NonFund Based Facilities#	September 2019	NA	NA	(100.0)	[ICRA]A- (Stable)
NA	Fund Based/NonFund Based Facilities	September 2019	NA	NA	9.0	[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 – Not Available

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4547 4829
rajeshwar.burla@icraindia.com

Abhishek Lahoti
+91 40 4547 4829
abhishek.lahoti@icraindia.com

Anupama Reddy
+91 40 4547 4829
anupama.reddy@icraindia.com

Rabbani Mohammed D
+91 40 4547 4829
d.rabbani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.