

September 04, 2020 Revised

## SGH Realty LLP: [ICRA]BBB+ (Stable) assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	421.0	[ICRA]BBB+ (Stable) assigned
Long-term – Fund-based/Non fund-based <sup>#</sup>	(100.0)	[ICRA]BBB+ (Stable) assigned
Long-term – Fund-based/Non fund-based	9.0	[ICRA]BBB+ (Stable) assigned
<b>Total</b>	<b>430.0</b>	

\*Instrument details are provided in Annexure-1

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

### Rationale

The assigned rating favourably factors in the strengths derived by SGH Realty LLP (SRL) from its strong promoters, primarily the Phoenix Mills Limited (PML). PML is the largest retail real estate player in India having a geographically diversified mall portfolio. The JV partner, Bsafal Group, is one of the well-known real estate developers in Ahmedabad. SRL is undertaking development of a mall in Ahmedabad, Gujarat. PML owns 'Palladium' brand and it proposes to use the same for the mall being developed. The mall is expected to benefit from operating synergies with PML including established brand, mall operating capabilities and leasing expertise. ICRA expects PML, along with Bsafal Group, to provide financial support to SRL, if required. The project enjoys an advantageous location being present in one of the premium areas in Ahmedabad i.e. S G Highway. Good connectivity and attractive catchment area are likely to be the demand drivers for the mall. The rating factors in comfortable funding mix as the project is expected to be funded in a debt-to-equity ratio of 0.92 times. Additionally, the promoters' contribution has been completely brought in as on March 31, 2020, which mitigates the funding risk to a large extent. All the approvals for commencement of construction have been received and hence the regulatory risk remains moderate.

The rating, however, is constrained by the project execution risk, as ~68% of its construction cost is yet to be incurred as on March 31, 2020. Nevertheless, the date of commencement of commercial operations (DCCO), which is March 31, 2023, provides adequate cushion for completing the project. The construction was affected in Q1 FY2021 by the Covid-19 pandemic and the consequent restrictions on various business activities. However, there has been a gradual improvement in the pace of construction and ICRA does not anticipate any delays in achieving DCCO.

The project is exposed market risks as reflected by its unleased area. The management intends to undertake incremental leasing once the construction reaches at an advanced level. ICRA notes that the Covid-19 pandemic has created turbulence in the retail segment and operating malls are undergoing severe stress due to closure of operations, followed by rental waivers offered to tenants. Market dynamics are yet to pan out for new leasing post the pandemic, which may be affected by possible stress on the prospective tenants' financial risk profile. The same remains a sensitivity for SRL.

The bullet repayment requirement for the construction finance facility, which falls due after six months of DCCO, exposes the firm to refinancing risk. ICRA believes that PML's track record in leasing mall spaces and hence raising lease rental discounting (LRD) loans mitigate the refinancing risk to some extent. The firm is also exposed to geographical and asset concentration risks, which are inherent in companies with single projects.

The outlook on the rating is Stable, supported by ICRA's expectation of timely progress of the project in terms of construction as well as leasing.

## Key rating drivers and their description

### Credit strengths

**Strong business profile and established track record of PML in retail real estate** – SRL is a joint venture between PML and Bsafal Group, wherein both hold 50% stake. The PML Group is one of the largest retail real estate players in India with a portfolio of nine operational malls encompassing ~69 lakh sq ft of area. Further, the Group has ~40 lakh sq ft of under construction malls. The Group has established brands in retail real estate such as High Street Phoenix, Phoenix Market City and Palladium. The Group enjoys presence in commercial real estate, hospitality and residential real estate sectors. The Bsafal Group enjoys good brand equity in Ahmedabad real estate. The project will benefit from construction capabilities, mall operating experience and leasing expertise of the promoters. Further, the firm will enjoy financial support, if required, from the promoter groups.

**Location advantage due to premium location and good connectivity** – The mall will have gross leasable area of ~7.5 lakh sq ft and the property will be located at a key location on S G Highway in Ahmedabad. The location enjoys good connectivity to key city areas. Further, the location has an attractive catchment area due to presence of premium residential development nearby.

**Limited funding and regulatory risks** – The funding risk of the project remains low as the entire debt requirement has been tied up and 100% of the committed promoter contribution has already been infused. The project is funded by a comfortable debt-to-equity ratio of 0.92 times. Moreover, all the approvals required for commencement of construction have been received and hence the regulatory risk remains moderate.

### Credit challenges

**Exposure to project execution risk** – The firm incurred ~32% of the construction cost and ~57% of the total project cost as on March 31, 2020. The project is in a nascent stage at present and hence remains exposed to the execution risk. The Covid-19 pandemic has impacted construction activities in Q1 FY2021, however, the work has resumed gradually. Adequate buffer available for DCCO (March 31, 2023) mitigates the risk to some extent.

**Vulnerable to market risks** – The firm has signed LOIs with ~63% of the total leasable area. The firm is vulnerable to market risks for leasing of the remaining area. It might face some slowdown in incremental leasing in the near term because of the Covid-19 pandemic. The management intends to ramp up leasing only after satisfactory construction progress is achieved. PML's track record in operating large mall portfolio will mitigate the risks to some extent.

**Refinancing risk** – The construction finance facility will have a bullet repayment after six months of achieving DCCO, which will expose the firm to refinancing risk. Some comfort can be derived from PML's leasing expertise which will help in generating adequate LRD eligibility.

**Geographical and asset concentration risks** – Since SRL is a single project SPV, it is exposed to geographical and asset concentration risks, which are inherent in companies with single projects.

### Liquidity position: Adequate

The firm reported Rs. 8.9 crore cash and liquid investments and Rs. 421 crore undrawn bank limits as on March 31, 2020 for the construction of the mall against pending cost of ~Rs. 380 crore. The interest will be funded by the sanctioned debt facility and there are no principal repayments scheduled until September 30, 2023 (or six months from DCCO, whichever is earlier).

## Rating sensitivities

**Positive triggers** – ICRA could upgrade SRL’s rating if the firm achieves significant project progress in a timely manner without any material cost overruns and ramps up its leasing at adequate rental rates.

**Negative triggers** – Cost overruns or unforeseen delays in the completion of the project could exert negative pressure on SRL’s rating. Considerable delays in lease tie-ups and materially lower-than-expected rental rates may warrant a rating downgrade. Further, significant weakening of promoters’ credit profile or weakening of linkages of SRL with promoters will be the negative triggers.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Debt Backed by Lease Rentals</a>
Parent/Group Support	Parent Company: Phoenix Mills Limited (PML) and Bsafal Group  We expect SRL’s promoter groups to be willing to extend financial support to SRL, should there be a need, given the high strategic importance that SRL holds for meeting their diversification objectives. PML proposes to use its premium brand, Palladium, for the mall being 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 construction of a retail mall – Palladium – in Ahmedabad, Gujarat. The mall will be built on a land parcel of 5.2 acres and the gross leasable area of the mall will be 7.5 lakh sq ft. The project’s scheduled commercial operation date is March 31, 2023.

**Key financial indicators: Not applicable being a project company**

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 2020 (Rs. crore)	Date & Rating 04-September-2020	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 Term Loan	Long Term	421.0	-	[ICRA]BBB+ (Stable)	-	-	-
2 Fund Based/Non Fund Based Facilities <sup>#</sup>	Long Term	(100.0)	-	[ICRA]BBB+ (Stable)			
3 Fund Based/Non fund based Facilities	Long Term	9.0	-	[ICRA]BBB+ (Stable)			

\*Rs. 100-crore sublimit of the Term Loan

### 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 [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
NA	Long-term – Term Loan	September 2019	-	Sept 2023*	421.0	[ICRA]BBB+ (Stable)
NA	Long-term – Fund Based/Non Fund Based	September 2019	-	-	(100.0)	[ICRA]BBB+ (Stable)
NA	Short-term – Letter of Credit	September 2019	-	-	9.0	[ICRA]BBB+ (Stable)

Source: SRL

\* The final maturity will depend on the DCCO

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## Corrigendum

**Rationale dated September 04, 2020 has been revised with change as below:**

Change in Relationship contact details from L. Shivakumar to Jayanta Chatterjee.

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