

March 15, 2024

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	723.60	615.80	[ICRA] A- (Stable); reaffirmed
LT-Fund Based OD limits	10.00	8.57	[ICRA] A- (Stable); reaffirmed
LT/ST Non-fund-based limits	7.53	15.00	[ICRA] A- (Stable)/ [ICRA] A2+; reaffirmed
LT – Unallocated	209.98	0.00	-
Total	951.11	639.37	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation for South City Projects (Kolkata) Limited (SCPL) factor in the healthy occupancy for its mall property and comfortable debt protection metrics. SCPL's South City Mall is operating at healthy occupancy at 99% as of December 2023 (99% as of November 2022) with diverse and reputed lessees. The company currently has three commercial projects on sale with a total saleable area of 25.9 Isf with ~98% of the area sold and the cost incurred around ~97% as of December 2023. Backed by healthy leasing, the lease rentals are expected to improve by around 6-8% each year in FY2024 and FY2025. This along with the expected reduction in debt backed by pre-payments of the term debt is likely to result in comfortable leverage metric with Gross Debt/Cash flow from operations at around ~2.2 times as on March 2024 and ~1.9 times as on March 2025. Total debt of the company is expected to be around Rs. 950 crore as of March 2024, which includes Rs. 373 crore debt for South City Altair project and balance is LRD loan against lease rentals from South city mall. The rating continues to factor in the established track record of the company's sponsors in the real estate development and experience in managing diverse portfolio.

The ratings, are, however constrained by the market risk for its two residential projects, South City Altair in Sri Lanka and South City Retreat in Kolkata, as the sales velocity for these projects have remained muted over the last 12-14 months. South City Altair witnessed slow sales velocity due to economic slowdown in Sri Lanka which has impacted the project's performance. ICRA notes that the debt for South City Altair project is 100% backed by mix of fixed deposits and government bonds. Further, the cash flow adequacy¹ for the ongoing projects (on sale model) remains moderate at 32% as of December 2023 (65% as of November 2022) due to slow sales momentum and the company continues to remain exposed to market risks of the unsold inventory of ~Rs. 1103 crore as of December 2023 majorly comprising of unsold inventory of South City Altair project (i.e. Rs. 1048 crore). In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which in turn render the company's sales vulnerable to any downturn in demand.

The stable outlook on the long-term rating reflects ICRA's expectations that the company will sustain the healthy occupancy of its mall, improve collections from its residential projects and maintain comfortable debt protection metrics.

Key rating drivers and their description

Credit strengths

¹ Cash 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) on sale model.

Healthy occupancy levels of 99% and comfortable debt protection metrics – The South city mall has been operational since 2008 and enjoys healthy occupancy levels of 99% as of December 2023 (99% as of November 2022) along with diverse and reputed lessees. Backed by healthy leasing, the lease rentals are expected to improve by around 6-8% each year in FY2024 and FY2025. This along with the expected reduction in debt backed by pre-payments of the term debt is likely to result in comfortable leverage metric with Gross Debt/Cash flow from operations at around ~2.2 times as of March 2024 and ~1.9 times as of March 2025. Total debt of the company is expected to be around Rs. 950 crores as of March 2024, which includes Rs. 373 crore debt for South City Altair project and balance is LRD loan against lease rentals from South city mall.

Location advantage along with good connectivity – The mall has a chargeable area of ~7.7 lakh square feet (lsf) and the property is located at a favorable location in Kolkata, i.e., Prince Anwar Shah Road. 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 to support healthy footfalls.

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.

Credit challenges

Exposure to market risk – The market risk remains high in the two residential projects, South City Altair in Sri Lanka and South City Retreat in Kolkata, as the sales velocity for these projects have remained muted over the last 12-14 months. South City Altair witnessed slow sales velocity due to economic slowdown in Sri Lanka which has impacted the project's performance. ICRA notes that the debt for South City Altair project is 100% backed by mix of fixed deposits and government bonds. The company continues to remain exposed to market risks of the unsold inventory of ~Rs. 1103 crore as of December 2023 majorly comprising of unsold inventory of South City Altair project (i.e. Rs. 1048 crore).

Moderate cash flow adequacy – The cashflow adequacy ratio remains moderate at 32% as of December 2023 (65% as of November 2022), deteriorated on account of reduction in committed receivables to Rs. 123 crore while the pending cost remains at around Rs. 53.7 crore while the debt outstanding in ongoing projects is ~Rs. 373 crore (which is fully backed by a mix of fixed deposits and bonds) as of December 2023.

Exposed to cyclicity in real estate business – The residential real estate sector, being cyclical in nature is highly dependent on macro-economic factors, which exposes its sales to any downturn in demand and competition within the region from various established developers.

Liquidity position: Adequate

The company has an adequate liquidity position, with unencumbered cash and bank balance of Rs. 38.7 crore and unutilized overdraft balance of Rs. 9 crore as of December 2023. The company's debt repayment obligation for Q4FY2024 remains at Rs. 10.7 crore and Rs. 55 crore in FY2025 which are estimated to be comfortably met through its cashflow from operations.

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 5-year average DSCR below 1.25x on sustained basis may put pressure on rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty – Residential/Retail/Commercial Realty – Lease Rental Discounting (LRD)
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings ICRA has consolidated the financials of South City Projects (Kolkata) Limited (SCPL) along with its subsidiaries, as these entities are involved in real estate operations and has close business, financial and managerial linkages along with a common treasury team.

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, Indocean Developers Private Limited, Bengal Anmol South City Anmol Infrastructure Limited and South City Infra Park LLP, currently has 5 ongoing projects- South City Mall, South City Business Park, South City Anmol Infra, South City Retreat and South City Altair.

Key financial indicators (audited)

SCPL – Consolidated	FY2022	FY2023
Operating income	1,090.6	455.0
PAT	- 316.2	129.2
OPBDIT/OI	18.2%	36.5%
PAT/OI	-29.0%	28.4%
Total outside liabilities/Tangible net worth (times)	15.9	6.1
Total debt/OPBDIT (times)	5.5	5.8
Interest coverage (times)	0.4	1.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, interest coverage ratio is calculated on OPBDIT.

Source: Company; ICRA Research

Status of non-cooperation with previous CRA – NA

Any other information: None

Rating history for past three years

Instrument		Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on Feb 29, 2024	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					March 15, 2024	January 30, 2023	October 01, 2021	-
1	Fund-based term loan	Long term	615.80	615.80	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	-
2	Fund based – Overdraft limits	Long term	8.57	0.00*	[ICRA] A- (Stable)	[ICRA] A- (Stable)	[ICRA] A- (Stable)	-
3	Non-fund based limits	Long term/	15.00	5.91	[ICRA] A- (Stable)/ [ICRA] A2+	[ICRA] A- (Stable)/ [ICRA] A2+	[ICRA] A- (Stable)/ [ICRA] A2+	-

	Short term					
4	Long term Unallocated	Long term	0.00	0.00	-	[ICRA] A- (Stable) -

*Nil outstanding

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based term loan	Simple
Fund based – Overdraft limits	Simple
Non-fund based limits	Complex

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	9.0%	FY2033	347.50	[ICRA] A- (Stable)
NA	Term Loan 2	FY2022	9.0%	FY2033	268.30	[ICRA] A- (Stable)
NA	Overdraft Limits	-	-	FY2030	8.57	[ICRA] A- (Stable)
NA	Non-fund based limits	-	-	-	15.00	[ICRA] A- (Stable)/ [ICRA] A2+

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	Consolidation approach
South City Projects (Kolkata) Limited	100% (rated entity)	Full Consolidation
Indocean Developers Private Limited	100%	Full Consolidation
Bengal South City Matrix Infrastructure Ltd	100%	Full Consolidation
Bengal Anmol South City Infrastructure Limited	100%	Full Consolidation
South City Property Management Pvt Ltd	100%	Full Consolidation
South City Developers Pvt Ltd	100%	Full Consolidation
AA Infraproperties Pvt Ltd	100%	Full Consolidation
South City Retreat Property Management Pvt Ltd	100%	Full Consolidation
AA Infra (Middle East) Ltd	100%	Full Consolidation
AA Infra Properties (Jafza) Ltd	100%	Full Consolidation
High Rise Developers Pvt Ltd	100%	Full Consolidation

Source: ICRA Research, SCPL

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