

March 22, 2024

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 loans	203.66	182.76	[ICRA]A (Stable); Reaffirmed
Unallocated limits	100.34	121.24	[ICRA]A (Stable)/[ICRA]A1; Reaffirmed
Total	316.00	316.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation for Merlin Projects Limited factors in the estimated improvement in the Merlin Group's¹ collections in FY2024 and FY2025, along with comfortable leverage metrics. The bookings of the Group are healthy at 58% of the total ongoing projects of 7 million square feet (msf), with adequate cash flow adequacy ratio (committed receivables/pending cost + outstanding debt) of 69% as of September 2023. The Group's collections are estimated to increase by 10% in FY2024 (PY: Rs. 530 crore) and grow further by 35-40% in FY2025, supported by the adequate committed sales, continued good sales velocity, construction progress for the ongoing projects and a healthy launch pipeline of upcoming projects. Despite an increase in the consolidated debt levels to Rs. 381 crore as of March 2023 from Rs. 315 crore in March 2022, the leverage metrics, as indicated by Gross debt/CFO, remained comfortable at around 2.4 times as of March 2023 and is projected to range within 2.8-3.0 times as of March 2024. Around 64% of the Group's external debt (as of September 2023) comprised lease rental discounting (LRD) loans, which is backed by lease rentals from a commercial portfolio of around 0.3 msf, which is expected to generate an annual rental of around Rs. 48-50 crore for FY2024. The ratings note 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. Through historic land acquisitions, MPL has access to sizeable land parcels providing financial flexibility and adequate potential for future project development. ICRA notes the Group's favourably located retail portfolio, which generates a regular rental income, further supporting the cash flows.

The ratings, however, are constrained by the exposure to execution and market risks for the Group's ongoing and upcoming projects. As of September 2023, the company had 44% of area to be sold and 60% of cost to be incurred for the ongoing projects. It is proposing to launch 1-1.5 msf every year in the medium term. The ratings remain constrained by the relatively moderate scale of the Group's operations as reflected by and the estimated collections of around Rs. 570-590 crore in FY2024. Notwithstanding the increase in collections by 35-40% in FY2025, 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. The Group remains exposed to external factors such as the inherent cyclicality in the real estate industry and regulatory risks.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group's collections will improve, supported by good sales velocity and strong launch pipeline, along with sustenance of comfortable debt protection metrics.

¹ Merlin Group includes Merlin Projects Limited and all its subsidiaries/JV companies having ongoing projects, leased properties and/or outstanding debt.

Key rating drivers and their description

Credit strengths

Healthy booking levels with adequate cash flow adequacy – The Group's bookings are healthy at 58% of the total ongoing projects of 7 million square feet (msf) and cash flow adequacy ratio (committed receivables/pending cost + outstanding debt) is adequate at 69% as of September 2023.

Estimated increase in collections; comfortable leverage levels – The Group's collections are estimated to increase by 10% in FY2024 (PY: Rs. 530 crore) and grow further by 35-40% in FY2025, supported by adequate committed sales, continued good sales velocity, construction progress for the ongoing projects and a healthy launch pipeline of upcoming projects. Despite an increase in its consolidated debt levels to Rs. 381 crore as of March 2023 from Rs. 315 crore in March 2022, the leverage metrics, as indicated by Gross debt/CFO, is comfortable at around 2.4 times as of March 2023 and is projected to range within 2.8-3.0 times as of March 2024. Around 64% of the Group's external debt (as of September 2023) comprised LRD loans, which is backed by lease rentals from a commercial portfolio of around 0.3 msf, which is expected to generate an annual rental of around Rs. 48-50 crore for FY2024. The reliance on debt for residential projects is likely to remain low, given the healthy track record of funding projects primarily through customer advances. Through historic land acquisitions, MPL has access to sizeable land parcels providing financial flexibility and adequate potential for future project development.

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 has a leased retail portfolio of around 0.3 msf across two properties - Acropolis Mall (0.26 msf), located on Rajdanga Main Road, Kolkata, and Homeland Mall, (0.03 msf) located in Ashutosh Mukherjee Road in Kolkata. Both the malls are favourably located around the commercial hubs and thus, benefit from a populous catchment area. The overall occupancy for the malls remains high at 98% as of September 2023, with expected annual rentals of around Rs. 48-50 crore for FY2024.

Credit challenges

Moderate scale and geographically concentrated operations – The ratings remain constrained by the relatively moderate scale of the Group's operations as reflected by estimated collections of around Rs. 570-590 crore in FY2024. Notwithstanding the increase in collections by 35-40% in FY2025, 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. 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.

Exposure to execution and market risks – The ratings are constrained by the exposure to execution and market risks for the Group's ongoing and upcoming projects. As of September 2023, the company had 44% of area to be sold and 60% of cost to be incurred for the ongoing projects and is proposing to launch 1-1.5 msf every year in the medium term.

Vulnerability to cyclicity in real estate sector – The Group remains vulnerable to inherent risks of the real estate sector, such as susceptibility to declining property prices, a slowdown in economy, reduction in housing demand and regulatory risks. The Group has high dependence on the Kolkata real estate market, which accounts for majority of its total saleable area in its ongoing projects.

Liquidity position: Adequate

The Group's liquidity is expected to remain adequate with unencumbered cash and liquid balances of around Rs. 55 crore, undrawn construction finance limits of around Rs. 113 crore towards the ongoing projects and healthy committed receivables of around Rs. 1,337 crore from the sold areas as of September 2023. The scheduled debt repayments for construction finance

debt availed for the residential segment and LRD debt against the malls are likely to be met by the cash flow from operations. Further, it reported an unutilised overdraft limit of Rs 52 crore (Rs. 12 crore in Merlin Projects Limited and Rs. 40 crore in Merlin Acropolis Projects Pvt Ltd) as of February 2024.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is a significant increase in scale and collections, resulting in an improvement in 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 Realty - Commercial/Residential/Retail Realty – Lease Rental Discounting
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 their close business, financial and managerial linkages.

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 – Consolidated (audited)

Particulars	FY2022	FY2023
Operating income	573.5	273.6
PAT	109.2	59.5
OPBDIT/OI	21%	18.8%
PAT/OI	19%	21.8%
Total outside liabilities/Tangible net worth (times)	2.0	2.3
Total debt/OPBDIT (times)	3.4	8.7
Interest coverage (times)	4.3	2.1

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

Status of non-cooperation with previous CRA: Not applicable

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 as on September 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 22, 2024	Dec 27, 2022	Sep 21, 2021	Jun 05, 2020
1 Working capital facilities	Long term	12.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Term loans	Long term	182.76	102.17	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3 Unallocated limits	Long term/short term	121.24	-	[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 loans	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	-	-	-	12.00	[ICRA]A (Stable)
NA	Term loan	September 2023	-	FY2028	50.00	[ICRA]A (Stable)
NA	Term loan	September 2022	-	FY2035	20.00	[ICRA]A (Stable)
NA	Term loan	July 2020	-	July 2025	3.35	[ICRA]A (Stable)
NA	Term loan	August 2021	-	FY2028	70.00	[ICRA]A (Stable)
NA	Term loan	FY2022	-	FY2028	39.41	[ICRA]A (Stable)
NA	Unallocated limits	-	-	-	121.24	[ICRA]A (Stable)/ [ICRA]A1

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	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
Meenambakkam 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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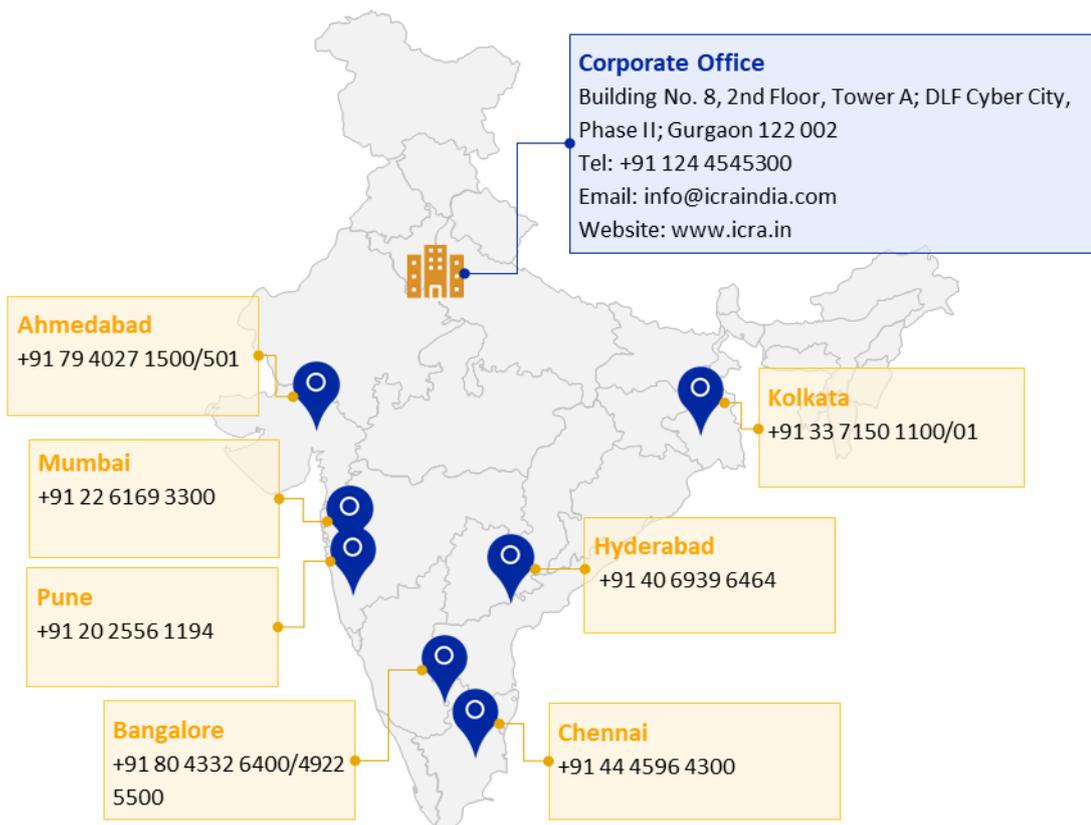
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