

February 09, 2017

Trishul Buildtech & Infrastructures Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Term Loans	295.32	Reaffirmed at [ICRA]BBB / outlook changed to Positive from Stable
Total	295.32	

Rating Action

ICRA has reaffirmed the long term rating of [ICRA]BBB (pronounced as ICRA triple B)¹ outstanding on the Rs. 295.32 crore term loans of Trishul Buildtech & Infrastructures Private Limited (TBIPL). The outlook on the long term rating has been revised to Positive from Stable.

Rationale

While assigning the rating, ICRA has taken a consolidated view of MRG Group (the group, comprising of TBIPL and its subsidiaries) given the strong operational, financial and management linkages among the entities.

The revision in rating outlook to positive takes into account expected improvement in TBIPL's financial flexibility and liquidity profile on back of the cash flows to the tune of Rs.127.5 crore which are expected to be received during Q4 FY2017 and FY2018 from its JDA partners for land parcels at Varthur Gunjur and Nagawara. The rating also continues to factor steady cash flows being received by the company from the *Prestige Lakeside Habitat project* (JDA between TBIPL and Prestige Habitat Ventures (PHV) which support the repayment obligations and investment requirements of the group.

The company is currently in the process of setting up a luxury hotel in Bangalore – operations for which are likely to commence in FY2018. Cash flows received from the Lakeside Habitat project are used to fund the equity portion of the Bangalore hotel project in addition to regular land aggregating activities of the company. While management tie-ups with well-known hospitality groups such as *'Marriott International Inc'* and *'Hilton Worldwide'* are expected to benefit the company's hotels in terms of global branding, marketing and advertising networks, there has been considerable delay in construction of the aforementioned hospitality projects.

The rating continues to draw comfort from the company's long track record and strong capabilities in acquiring large parcels of land (for resale as well as further development) in conjunction with established relationships with larger and renowned developers which are expected to support future business prospects of the company.

The rating also continues to take into account the stretched capital structure of the company as on March 31, 2016 in addition to large repayment obligations over the near term; and execution and completion risks for all the ongoing projects of the company. The group has an incremental capital expenditure plan to spend Rs.120 crore over the next 2-3 years to construct a 4-star hotel in Vashi, Mumbai in addition to hospitality projects across locations over the longer term – requiring long term borrowings to partially fund the same. In case the company chooses to execute these projects, it is likely that the capital structure and coverage indicators of the company would be further impacted. Consequently, continuous cash flows from the Prestige Lakeside Habitat JDA would be critical to funding the equity portion of the planned hospitality projects of the group in addition to sustaining its credit profile. Further, high competitive intensity in the hospitality space on the back of healthy supply addition in the Bangalore market is likely pressurize the company's margins going forward.

While TBIPL currently operates predominantly in the Karnataka market indicating relatively high degree of geographical concentration, acquired properties in Mumbai and Faridabad are likely to mitigate this risk to a certain extent going forward.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit Strengths

- Cash flow visibility over the medium term supported by healthy booking and collection levels for the Prestige Lakeside Habitat project
- Management tie-ups with well-known hospitality group such *Marriott International* for the hotels in Nagawara, Bangalore ensures benefits from their global branding, marketing and advertising networks
- Expected improvement in TBIPL's financial flexibility and liquidity profile on the back of the cash flows to the tune of Rs.127.5 crore which are expected to be received during Q4 FY2017 and FY2018 from its JDA partners for land parcels at Varthur Gunjur and Nagawara
- Long track record and strong capabilities of the company in land banking (for resale as well as further development)
- Established relationships with larger and renowned developers supporting business prospects

Credit Weakness

- Financial profile characterised by volatile revenues, margins and cash flows in the past; stretched capital structure as on March 31, 2016
- Incremental capital expenditure plan to spend Rs.120 crore over the next 2-3 years to construct a 4-star hotel in Vashi, Mumbai in addition to hospitality projects across locations over the longer term
- Execution and completion risks for the ongoing projects of the company; presence of reputed partners for some projects mitigates the same to a certain extent. Considerable time and cost overrun in the Nagawara hotel project
- High competitive intensity in the hospitality space on the back of healthy supply addition in Bangalore market may pressurize margins of the company going forward
- High degree of geographical concentration with operations predominantly in the Karnataka market

Description of key rating drivers highlighted above:

TBIPL is a mid-sized player engaged in a range of real estate activities namely development of residential and hospitality projects in addition to specializing in acquiring large parcels of land either for resale or developing projects on the same. The company also completed development of a residential project named 'Aaahika' on Bannerghatta road in Bangalore. However, inventory in this project is yet to be sold completely. Further, the company had entered into Joint Development Agreement (JDA) with PHV to develop a large, Disney-themed residential township called *Prestige Lakeside Habitat* located in Varthur in Bangalore. As part of the JDA, PHV would be developing an 11 – block, 24 tower residential town ship comprising of 3,429 apartments (2, 2.5, 3 and 4 BHK) and 271 villas in the said area. As per the terms of the agreement, TBIPL and PHV are sharing the total project revenue in the ratio 30:70 respectively. The company's share of built up area in the project is likely to be around 1.95 million square feet. While the project is expected to be completed by FY2021, the company is likely to start recognising its share of revenues to the tune of Rs.1,200-1,500 crore from this project during FY2019, even though cash flows from the same have already started trickling in. ICRA notes that the current healthy booking levels, strong catchment area supporting future bookings and equated bi-monthly payments from buyers enhance the cash flow visibility for the company over the near-to-medium term.

In addition to the residential project mentioned above, the company is also currently constructing a 193 – room, 9 – floor, 5 – star hotel in Nagawara in Bangalore. The construction of the property commenced in April 2013 and the hotel is likely to commence operations during FY2018. While the initial project cost of the hotel was expected to be around Rs.52.5 crore, the same has now escalated to around Rs.119 crore on account of increased number of rooms and cost per room post entering into a management agreement with the Marriott International Inc (for operating the property for a period of 25 years). There has also been considerable delay in execution of the project on account of sluggish pace of construction and multiple levels of audits from Marriott. The primary catchment area for this hotel would include business travellers visiting the *Manyata Tech Park* and the *Karle Tech Park* - both situated in close vicinity to the hotel. However, the property is expected to face stiff competition from some of the premium properties located in close vicinity to the project. Nevertheless, the tie up with a reputed operator such as *Marriott International Inc* for operating the property is likely to aid in healthy occupancies in turn enhancing revenue prospects for the company.



The company has also recently entered into a JDA with *Zee group* to set up a commercial space building in Nagawara for which the company would be receiving Rs.17.5 crore as security deposit amount during Q4 FY2017.

Further, the company has also entered into a JDA with *Godrej group* to set up a residential real estate project in a 15-acre land parcel in Varthur beside the aforementioned *Prestige Lakeside Habitat* project. As part of the JDA, Godrej group would be developing a residential project with a built up area of about 1.85 million square feet. As per the terms of the agreement, TBIPL and Godrej group would be sharing the total project revenue in the ratio 15:85 respectively. In addition to the revenue share based of sales of the project, the company would also be receiving a fixed sum of Rs.1.0 crore per month from the date of launch of the Godrej project ensuring steady cash flows to the company. While the company is expected to receive Rs.75 crore as security deposit during Q1 FY2018 when the JDA agreement is signed, it is further expected to receive about Rs.35 crore on launch of the project during Q4 FY2018.

In addition to the aforementioned projects, the group has plans to expand aggressively in the hospitality segment by constructing a 4-star hotel in Vashi in the next 2-3 years in addition to developing hospitality projects across Karnataka over the longer term. Overall, the group is expected to spend about Rs.250-300 crore capital expenditure over the next 2-3 years. While the company's net worth is expected likely to improve over the next four years on account of the healthy cash flows and accretion to reserves expected from the *Prestige Lakeside Habitat* project, the total debt is expected to increase on account of incremental debt to be added to the company's books for all the planned projects under the hospitality segment.

Analytical approach:

While assigning the rating, ICRA has taken a consolidated view of MRG Group (the group, comprising of TBIPL and its subsidiaries) given the strong operational, financial and management linkages among the entities.

Links to applicable Criteria

<http://www.icra.in/Files/Articles/2014-August-Rating-Methodology-Hotel.pdf>

<http://www.icra.in/Files/Articles/Real%20Estate%20Methodology.pdf>

About the Company:

Trishul Buildtech & Infrastructures Private Limited (TBIPL) is engaged in a range of real estate activities namely development of residential and hospitality projects in and around Bangalore in addition to engaging in land-banking either for resale or developing projects on the same. The company has recently completed developing a residential project named "Aahika" located in BTM Layout, Bangalore. The company has also entered into Joint Development Agreement (JDA) with Prestige Habitat Ventures (PHV) to develop a large, Disney-themed residential township called Prestige Lakeside Habitat located in Varthur in Bangalore. As part of the JDA, TBIPL has offered 102 acres of land to PHV to develop 3,429 apartments and 271 villas. In addition to the residential projects mentioned above, the company is also currently developing a 193-room hotel located in Nagawara in Bangalore.

TBIPL is part of the MRG Group (the group) which is involved in a wide range of businesses namely operating various fine dining and multi cuisine restaurants, developing various residential and hospitality projects in addition to developing and managing several hotel properties in Karnataka. The group also has interests in developing resorts in popular tourist destinations like Goa and Coorg. The group has nearly 10 companies operating across all the aforementioned lines of business.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month- year & Rating in FY2014	
					February 2017	May 2015	October 2014	March 2014
1	Term Loans	Long Term	295.32	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	

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 www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loan 1	-	-	FY2022	35.00	[ICRA]BBB (Positive)
Term Loan 2	-	-	FY2022	40.00	[ICRA]BBB (Positive))
Term Loan 3	-	-	FY2019	75.00	[ICRA]BBB (Positive))
Term Loan 4	-	-	FY2019	175.00	[ICRA]BBB (Positive))

Source: Trishul Buildtech & Infrastructures Private Limited

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About ICRA Limited:

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