ICRA

July 10, 2017

Select Infrastructure Private Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Proposed Limits	197	[ICRA] AA (stable); rating

* Instrument details are provided in Annexure I

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A)[1] for Rs. 197-crore[2] proposed limits of Select Infrastructure Private Limited (SIPL). The outlook on long-term rating is Stable.

Rationale

The rating reaffirmation reflects SIPL's steady and robust accruals, which coupled with the low debt, have resulted in healthy debt protection indicators. The strong accruals are the result of the Select Citywalk's premium lessee profile, its consistently high occupancy levels, sturdy footfalls, and its good reputation in National Capital Region (NCR). Also, by virtue of being in the Saket District Center in South Delhi, the mall is able to generate footfalls from offices, multiplexes and hotel in the District Center. ICRA's rating continues to derive comfort from the company's strong promoter group and the property's favourable location due to proximity to multiple affluent localities in South Delhi.

The rating is, however, constrained by the decline in footfalls in the mall in FY2017 due to increase in intensity of competition in National Capital Region (NCR) and due to the impact of demonetisation. The rating continues to be constrained by company's obligation towards unsecured borrowing from promoters, existing as well as potential competition from multiple malls in National Capital Region (NCR) and concentration risks arising out of operating a single property. The rating also takes into consideration SIPL's entry into retailing business through franchise as well as in-house brands, which has resulted in increase in capital requirement. ICRA has also noted the company's plans to expand in mall management business, tie-up with other malls in the country or to expand the current mall (subject to approval for additional floor space index); however, the actual impact of the same cannot be ascertained as the plans are currently at initial stages. While reaffirming the rating, ICRA has noted the regulatory action initiated by South Delhi Municipal Corporation requiring the malls in South Delhi to provide parking for free. Though the matter is still pending, ICRA estimates that the impact on company's cash flows will be limited as parking income contributed only 2% (provisional) of SIPL's revenues in FY2017.

Going forward, ICRA expects SIPL's operational cash flows to remain healthy on account of its strong operating metrics. Nevertheless, the quantum of investment made for planned expansion and consequent impact on its debt coverage indicators, coupled with the extent of withdrawals done by the promoters by way of interest, dividends or through redemption of unsecured debentures will be the key rating sensitivities.

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

[2] 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- Significant positive cash flow generation since commencement of operations due to the mall's high rentals and healthy occupancy levels
- Favourable location of the mall in Saket district centre in New Delhi; the mall's catchment includes affluent sections in South Delhi
- Reputed tenant profile, consisting of national and international brands, which enables it in maintaining healthy footfalls
- Healthy traction in its franchised retailing business, though the same has also resulted in an increase in its capital requirement
- Strong debt protection indicators due to healthy internal accruals and low leverage

Credit weaknesses

- Decline in footfalls in FY2017 due to the impact of demonetisation as well as increase in intensity of competition in National Capital Region (NCR)
- Obligation towards unsecured borrowings from promoters - there is no fixed schedule for repayment of the same and it can also be redeemed at a significant premium, as has been the case in the past
- Recent regulatory action by South Delhi Municipal Corporation banning parking charges may adversely impact the income from parking (Rs. 4.5 crore in FY2016; provisional)
- Concentration risks (such as geographical, sectoral et cetera) arising out of operating a single property

Description of key rating drivers

SIPL's mall is located in Saket district centre (Delhi) and its catchment area includes affluent sections of South Delhi. The catchment area (within 10 kms radius) of the mall includes colonies such as Pancheel Park, Saket, Geetanjali Enclave, Greater Kailash, Safdarjung Enclave, Sainik Farms, Defence Colony, New Friends Colony, Golf Links, Lodhi Colony etc. The high purchasing power of the residents in the vicinity provides the brands with a good catchment to cater to, which has also aided the company in charging high rentals from them as well as in maintaining healthy footfalls of the target segment in the mall.

SIPL faces competition from multiple malls in Saket District Centre, such as DLF Place, DLF Southcourt, Emaar MGF Metropolitan et cetera. In addition it also faces competition from the malls in NCR- DLF Mall of India, DLF Emporio, DLF Promenade, DLF Mall of India, Ambience Vasant Kunj and Ambience Gurgaon. The increase in the supply of retail space in NCR and aggressive pricing by competitors to get reputed brands, coupled with impact of demonetisation, has resulted in decline in footfalls of the company in FY2017.

Since inception, the mall has been able to achieve high occupancy levels (more than 95%) along with premium brands, which has translated into strong operational cash flows. Some of the brands currently occupying space in the mall are H&M, Gap, Zara, Masimo Dutti, Van Heusen, Louis Phillipe, French Connection, Tissot, Mango, Tommy Hilfiger, Puma, Nike, Calvin Klien, Crossword, Homestop, Reebok, PVR et cetera. In addition to the healthy footfalls generated by the presence of established brands in the mall, the high sales achieved by the tenants also results in higher revenues for SIPL on account of the revenue sharing agreement that the company enters with almost all of its lessees.

In FY2012, the company ventured into franchise/ store operation business. It started by having three brands under its fold in FY2012; however, the portfolio has now expanded to 12 stores. The company generated provisional revenues of Rs. 55 crore in FY2017, against Rs. 59 crore in FY2016, Rs. 45 crore revenues in FY2015 and Rs. 39 crore revenues in FY2014 from this business line, which accounted for 23% (provisional) of its operating income in FY2017. ICRA has noted the company's entry into this new business line has resulted in increase in capital requirement and in higher working capital intensity, from -27% in FY12 to -8% (provisional) in FY2017; however, the same is currently not materially impacting its cash flow metrics due to healthy cash flows, strong accruals from leasing business and the low level of debt of the company.

Analytical approach
For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Link to the applicable criteria
Corporate Credit Ratings: A Note on Methodology
Rating Methodology for Real Estate Entities
Rating Methodology for Debt backed by Lease Rentals

About the company
Select Infrastructure Private Limited (SIPL) was set-up in 1979 by the name of Sita Transport Private Limited. The company remained as a shell company till October 2003 when the name was changed to SIPL. It is a closely held company owned by Sharma family (70%) and Aarone Group (30%). The company owns and manages a retail property in Saket in New Delhi, having total covered area of 0.37 million sq. ft. Select Citywalk was developed as a mixed-use property, having commercial offices, retail space and service apartments & Cinemas; total cost of the project was over Rs. 480 crore. Commercial offices and service apartments were sold by SIPL in FY08. SIPL retained the retail space with itself and is managing the same on a 100% lease-based strategy and on a minimum monthly guarantee (MMG) model, wherein SIPL receives the lease rent or a predetermined percentage of revenues, whichever is higher.

Status of non-cooperation with previous CRA: Not applicable

Rating history for the last three years

Table

S. No	**Instrument**	**Current Rating (FY2018)**			**Chronology of Rating History for the past 3 years**		
		Type	**Amount Rated (Rs. Crore)**	**Date & Rating**	**Date & Rating assigned in FY2017**	**Date & Rating assigned in FY2016**	**Date & Rating assigned in FY2015**
				Jul-17	Jul-16	Jun-15	Jun-14
1	Unallocated Limits	Long Term	197	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA- (stable)

Note on complexity levels 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
Instrument Details

Instrument	**Date of Issuance/ Sanction**	**Coupon Rate**	**Maturity**	**Amount Rated/ Outstanding (Rs crore)**	**Current Rating and Outlook**
Proposed Limits	--	--	--	197.0	[ICRA]AA (stable)

Source: Select Infrastructure Private Limited

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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.

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