

July 28, 2017

Cornerstone Property Investments Private Limited

Summary of rated instruments

Instrument*	Amount	Rating Action
	In Rs crore	
LT – Term loan	110.0 (earlier nil)	[ICRA]BBB-(SO) (Stable), downgraded from [ICRA]BBB(SO) (Stable)
LT – Unallocated	0.0 (reduced from 110.0)	

*Instrument details captured under Annexure-1

Rating action

ICRA has downgraded the long term rating for Rs 110.0 crore term loan facilities (earlier nil) of Cornerstone Property Investments Private Limited from [ICRA]BBB(SO) (pronounced ICRA triple B structured obligation) to [ICRA]BBB-(SO) (pronounced ICRA triple B minus structured obligation). The outlook on the long-term rating is 'Stable'. The earlier unallocated limits have been brought to nil.

An 'SO' rating is specific to the rated issue, its terms and its structure and 'SO' ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned. The rating is based on the escrow arrangement and the ring-fencing mechanism wherein receivables of the Cornerstone Group, from a sale-cum-joint development agreement transaction with the Embassy Group would be used to service the rated term loan. The entire receivables, which have been identified as security for the loan, will become due for payment at the time of signing of the sale deed and the execution of the joint development agreement (JDA) for a combined 100-acre land parcel, located at Varthur in east Bengaluru. This land is collectively owned by the Cornerstone Group entities and promoters, namely Cornerstone Property Investments Private Limited, Cornerstone Bay City Developments Private Limited, Mrs. Kumudha Kumar Babu and Mrs. Premakala Prabhakar Reddy.

Rationale

The revision in rating takes into account the significant delay witnessed in signing of the sale-cum-joint development agreement (JDA) with Embassy group as compared to earlier expectations. Consequently, there is high dependence on funding support from group entities to meet the interest payments on the rated loan. In case of further delay in conclusion of this transaction, the funding support required from group entities would increase further as principal repayments for the rated term loan will start from March 2018.

The rating, however, takes comfort from the healthy cover of the escrowed receivables accruing to the Cornerstone group over the loan outstanding and interest payments due. The rating also draws comfort from the liquidity available with the group, which can take care of the interest payments due in the near term. Moreover, the loan has an initial moratorium of two years and liquidity support in the form of interest service reserve account (ISRA) covering six months' interest expense already maintained with the lender. The rating also considers the strong track record and execution capabilities of the counter-party, the Embassy Group, especially in the development and leasing of commercial office space.

Key rating drivers

Credit strengths

- Healthy cover of Cornerstone group's share of escrowed receivables from the JDA project over the debt repayment obligations
- DSRA of 6 month's interest gives comfort to any short-term cash flow mismatches

- Liquidity available at the corporate level to support debt servicing in the near term

Credit weaknesses

- Delay in execution of the sale-cum-JDA agreement with Embassy
- Further delay in JDA execution would further increase dependence on the group for timely debt servicing
- Increased debt at overall group level restricts the financial flexibility

Description of key rating drivers:

CPIPL, along with the other land owners (Cornerstone Bay City Developments Private Limited, Mrs. Kumudha Kumar Babu and Mrs. Premakala Prabhakar Reddy) have signed a MoU with Embassy Property Developments Private Limited (EPDPL) for a 100 acres land parcel located at Varthur, Bangalore. 30 acres of the larger property will be directly sold to Embassy while the remaining 70 acres will be developed through a JDA. As per the MoU signed between the two parties, Cornerstone group is entitled to receive Rs 472 crore from Embassy upon completion of the entire transaction. Cornerstone has already received Rs 100 crore, while the remaining Rs 372 crore will be received upon signing of the sale-cum-JDA agreement.

The balance receivable from the Embassy transaction of Rs 372 crore provides a healthy cover over the loan outstanding and interest costs that will accrue. However, interest payments until the completion of this transaction will have to be funded out of existing liquidity available with the group (Rs 60 crore unencumbered cash balances available). Nonetheless, the ISRA equivalent to 6 month's interest maintained with the lender provide some comfort. The signing of the sale-cum-JDA agreement with Embassy in a timely manner will be a critical rating sensitivity factor.

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

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

[Rating of debt instruments supported by structural features](#)

[Rating Methodology for Real Estate Entities](#)

About the company:

CPIPL is a part of Cornerstone group which is a leading property group in the business of land banking, development (primary residential) and joint development partnerships. Cornerstone Group is one of the largest owners of real estate in Bangalore with a land bank in excess of 2,000 acres and a development portfolio of over 9 million square feet.

CPIPL, along with its promoters and another group company, have entered into an MoU with the Embassy Group for jointly developing approximately 100 acres of land in Varthur, Bengaluru. The Embassy Group will acquire 30 acres of land out of the larger property and the balance will be developed under the JDA route. Cornerstone Group's receivables from this transaction have been securitised to raise the rated loan of Rs. 110 crore.

Key Financial Indicators (Audited)

	FY2015	FY2016
Operating Income (Rs. crore)	-	69.26
PAT (Rs. crore)	-24.91	-14.16
OPBDIT/ OI (%)	-	27.93%
RoCE (%)	-0.06%	9.23%
Total Debt/ TNW (times)	8.06	14.73
Total Debt/ OPBDIT (times)	-593.21	9.25
Interest coverage (times)	-0.01	0.58
NWC/ OI (%)	-	27%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table:

Sl. No.	Name of Instrument	Current Rating			
		Type	Rated amount (Rs. Crore)	Rating in FY2018	Rating in FY2017
				Jul-17	Jun-16
1	Term Loan	LT	110.0	[ICRA]BBB-(SO) (Stable)	[ICRA]BBB(SO) (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
Instrument Details

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term loan	March 2016	12.5%	December 2020	110.0	[ICRA]BBB-(SO) (Stable)

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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.

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