

## Cornerstone Property Investments Pvt. Ltd.

September 28, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Term loan	110.00	110.00	[ICRA]BB+(SO) (Stable); downgraded
<b>Total</b>	<b>110.00</b>	<b>110.00</b>	from [ICRA]BBB-(SO) (Stable)

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has downgraded the long-term rating assigned to the Rs. 110-crore term loan facilities of Cornerstone Property Investments Pvt. Ltd. (CPIPL / the company) to [ICRA]BB+(SO) (pronounced ICRA double B plus Structured Obligation) from [ICRA]BBB-(SO) (pronounced ICRA triple B minus Structured Obligation). The outlook on the long-term rating is Stable.

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.

### 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 and principal repayments on the rated term loan. The principal repayment of the rated term loan has started and is being presently supported through undrawn credit lines at the group level.

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 factors in the liquidity support in the form of interest service reserve account (ISRA<sup>1</sup>) covering six months' interest expense already maintained with the lender.

### Outlook: Stable

ICRA believes that the credit profile of CPIPL will remain Stable due to the funding support available from group entities, which can be utilised to make timely interest and principal payments until the sale-cum-JDA with Embassy is concluded. The outlook might be revised to Positive if the company achieves progress in the finalisation of the sale-cum-JDA which will provide sufficient cashflows to close the rated loan facility. The outlook might be revised to Negative if any further delay in the signing of the Sale Deed and JDA affects the liquidity profile.

<sup>1</sup> While the lender has the right to dip into the ISRA, the rated instrument does not have a ISRA invocation mechanism.

## Key rating drivers

### Credit strengths

**Healthy cover of Cornerstone group's share of escrowed receivables from the sale-cum-JDA project over the debt repayment obligations** – According to the terms of Memorandum of Understanding (MoU) signed between Cornerstone Group and Embassy Group, Cornerstone Group will receive Rs. 472 crore out of the sale-cum-JDA for around 100 acres of land to be developed in Varthur. Out of the total amount, Cornerstone Group has already received Rs. 100 crore and the remaining amount will be received on the signing of the JDA and Sale Deed. The balance amount of Rs. 372 crore provides a healthy cover of around 3.4 times on the rated term loan.

**ISRA of 6 month's interest**– CPIPL has maintained ISRA with 6 months of interest expenses amounting to Rs. 6.9 crore with the lender.

### Credit challenges

**Delay in execution of the sale-cum-JDA agreement with Embassy Group** – There has been a significant delay in the signing of the sale-cum-JDA with Embassy Group. The receivables from Embassy is the primary security for the rated term loan. Any further delay in the signing of the agreement will increase the dependence on group entities for funding support.

**Reliance of support from group entities; increase in debt at the Group level** – Until the conclusion of the transaction, the company will be reliant on funding support from group entities. The Cornerstone Group has liquidity available in the form of undrawn, sanctioned credit lines which can support the servicing of the debt until the sale-cum-JDA transaction is concluded. The debt level at the Cornerstone Group level has increased by around Rs. 299 crore over the last 12 months, with the debt being availed primarily against land / JDA receivables.

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

#### Links to applicable criteria:

[Corporate Credit Ratings: A Note on Methodology](#)

[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 2,500 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.

## Key financial indicators

	FY2016	FY2017
Operating Income (Rs. crore)	69.3	1.4
PAT (Rs. crore)	-14.2	-21.0
OPBDIT/OI (%)	27.9%	7.8%
RoCE (%)	9.7%	3.8%
Total Debt/TNW (times)	13.7	-20.9
Total Debt/OPBDIT (times)	8.2	1,825.6
Interest Coverage (times)	0.6	0.0
NWC/OI (%)	-2.9%	1,595.5%

**Status of non-cooperation with previous CRA: Not available**

**Any other information: None**

## Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating September 2018	Date & Rating in FY2018 July 2017	Date & Rating in FY2017 July 2016	Date & Rating in FY2016 -
1 Term Loan	Long Term	110.0	100.8	[ICRA]BB+(SO) (Stable)	[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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	March 2016	-	March 2021	110.00	[ICRA]BB+(SO) (Stable)

Source: Cornerstone Property Investments Pvt. Ltd.

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For more information, visit [www.icra.in](http://www.icra.in)

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