August 28, 2019

Peninsula Land Limited: Ratings downgraded

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	530.53	530.53	[ICRA]BB (Negative); Downgraded from [ICRA]BBB-(Negative)
Total	**530.53**	**530.53**	

*Instrument details are provided in Annexure-1

Rationale

The rating downgrade reflects the company's high refinancing risk given sizeable debt repayments of Rs. 651 crore in the rest of fiscal (Aug 2019-Mar 2020) and Rs. 624 crore in FY2021. The company's debt servicing ability in the near term is challenged due to lack of collections in one of the company's large sized completed projects due to long delays in receipt of Occupancy Certificate (OC). Additionally, weak economic environment has impacted sales and collections in many of the company's projects. As on June 2019, the company has sizeable pending collections of Rs. 1,685 crore, out of which around Rs. 245 crore are non-moving due to pending OC from a completed project. As on July 2019, the debt level continues to remain high at Rs. 2,310 crore on a consolidated basis (including SPV level debt).

The rating is also constrained by exposure to project execution risk for overall project portfolio considering significant area under development. The pending cost remains at Rs. 1,198 crore as on June 30, 2019. The rating also takes into account modest financial risk profile characterised by considerable losses, deterioration in gearing levels and weak debt coverage indicators.

The rating, however, draws support from experience of the management and PLL's established brand in Mumbai's real estate market. The rating also favourably considers healthy response achieved in recently launched affordable housing project AddressOne in Gahunje with 7.44 lakh square feet (sq. ft.) sold out of total saleable area of 9.14 lakh sq. ft. Nevertheless, the ability to improve the sales and collections sustainably against the backdrop of fixed commitments towards debt repayment, project execution and corporate expenses will remain amongst the key monitorable.

Outlook: Negative

The Negative outlook continues to reflect the sluggish demand in the real estate sector that poses a challenge to the company in maintaining its sales velocity, specifically in projects having large ticket size where the activity has remained tepid. The outlook may be revised to Stable if there is higher-than-expected pick-up in sales and collections, thus, improving the operational cash flows of the company and notable reduction in debt levels. Timely collection of receivables from land monetisation of assets also remains critical for improving the capital structure. The rating may be further downgraded if the company fails to refinance its near-term debt obligations or considerable delay in collections from the completed projects or moderation in the sales velocity increases the pressure on cash flows. Timely receipt of OC for completed projects continues to remain critical in future.

Key rating drivers

Credit strengths

Established position in Mumbai real estate market - PLL, the flagship company of the Ashok Piramal Group (a diversified business group with interests in textiles, real estate and engineering), has a portfolio that comprises commercial and residential developments majorly in western India. PLL has a strong brand recall in Mumbai with over 7.8 million sq. ft. of area developed till date. The promoters have long-standing experience of over 22 years in the real estate industry.

Good response to affordable housing project in Pune – The company launched affordable housing project AddressOne in Gahunje, Pune in Q1FY2019. Out of current saleable area of 9.18 lakh sq. ft., the company has already sold 81% of the area as on June 30, 2019.

Credit challenges

Exposure to high refinancing risks considering the significant debt repayment due in the near term – The company's debt levels remain high owing to delayed collections from large sized completed projects, slower-than-expected sales and realizations from ongoing projects, and a large under-construction portfolio. The company is exposed to high refinancing risk with sizeable debt repayments obligations of Rs. 651 crore in the rest of fiscal (Aug 2019-Mar 2020) and Rs. 624 crore in FY2021.

Weak cashflow position- The company sold ~70% of the total launched area of 49.73 lakh sq. ft. as on June 30, 2019 for a total sale value of Rs. 4,394 crore. Out of this, the company has sizeable pending collections of Rs. 1,685 crore, out of which around Rs. 245 crore are stuck due to pending OC from a completed project

Exposure to project execution risk – As against the budgeted cost, the company is yet to spend Rs. 1,198 crore towards completion of the project. Out of this, ~68% of the pending cost is to be incurred on a single project – Salsette 27 – which is in initial stage of construction. Notwithstanding the debt tie-up for most of the projects, timely completion of the projects will remain a key monitorable.

Deterioration in financial risk profile – The company's financial risk profile has weakened as characterized by the continued losses and resultant in deterioration in net worth, elevated debt levels and weakening of its debt coverage metrics. The company has reported consolidated operating loss of Rs. 355.3 crore in FY2019 compared to operating loss of Rs. 76.5 crore in FY2018 mainly because of thin project profitability. High interest expense due to elevated debt levels and exceptional items (inventory write-downs and impairment of investments/loans extended to project SPVs) have also led to net losses of Rs. 597.7 crore in FY2019 compared to net losses of Rs. 453.3 crore in FY2018. The gearing deteriorated from 4.8 times as on March 31, 2019 from 2.2 times as on March 31, 2018.

Liquidity Position:

Modest liquidity position owing to weak operating performance and high debt repayments in Q1FY2020. Though the company has cash balances of ~Rs. 27 crore as on June 2019 and ~Rs. 6 crore undrawn OD limits as on July 2019, sizeable scheduled debt repayments in the near term and considerable project cost outgo requirements put pressure on the liquidity position.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Real Estate Entities](#)
Parent/Group Support	NA
Consolidation / Standalone	Consolidation: ICRA has consolidated PLL along with its operational subsidiaries, joint ventures and associate companies (mentioned in Annexure 2) on account of the strong business and financial linkages between these entities.

About the company:

Incorporated on August 10, 1871 as a public limited company, Peninsula Land Limited (PLL) is a part of the Ashok Piramal Group. The company is in to real estate development with a portfolio comprising commercial, residential and retail developments. The projects include PLL's 'Ashok' product line in the residential sector and 'Peninsula' in the commercial sector. Since 1997, PLL has developed over 7.8 million square feet of real estate projects in Mumbai. Most of the development by PLL in the past has been either on the former textile mill lands owned by the group, or in joint development with the land owners. PLL has initiated the diversification of its operations outside of Mumbai by undertaking projects in cities such as Pune, Nashik, Lonavala, Bangalore and Goa. PLL also manages a Real Estate fund through a subsidiary, having co-invested in five projects with the fund.

Key financial indicators (audited) - Consolidated

	FY2018	FY2019
Operating Income (Rs. crore)	497.6	327.8
PAT (Rs. crore)	-453.3	-597.7
OPBDIT/ OI (%)	-15.4%	-108.4%
RoCE (%)	-6.0%	-12.0%
Total Debt/ TNW (times)	2.2	4.8
Total Debt/ OPBDIT (times)	-33.3	-7.1
Interest coverage (times)	-0.4	-2.1

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017	
					August 2019	March 2019	Oct 2018	February 2018	August 2017	September 2016	September 2015
1	NCD	Long Term	530.53	450.00	[ICRA]BB (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE138A07462	NCD	20-May-16	12.28%	20-May-19	7.90	[ICRA]BB (Negative)
INE138A07470	NCD	20-May-16	12.60%	20-May-19	8.93	[ICRA]BB (Negative)
INE138A07488	NCD	20-May-16	13%	20-May-19	22.81	[ICRA]BB (Negative)
INE138A07520	NCD	2-Jun-16	13%	2-Jun-19	6.36	[ICRA]BB (Negative)
INE138A07546	NCD	7-Oct-16	8%	7-Oct-22	450.00	[ICRA]BB (Negative)
Not Yet Placed	NCD	--	--	--	34.53	[ICRA]BB (Negative)

Source: Peninsula Land Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Rockfirst Real Estate Limited	100%	Full Consolidation
Truewin Realty Ltd	100%	Full Consolidation
Goodhome Realty Ltd	100%	Full Consolidation
Goodtime Real Estate Development Pvt. Ltd.	57%	Full Consolidation
RA Realty Ventures LLP	40%	Full Consolidation
Bridge View Real Estate Development LLP	50%	Full Consolidation

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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.

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