



## IREO Private Limited

Instrument	Amount Rated (Rs. Crore)	Rating Action (September 2015)
Term Loans	521.89	[ICRA]BBB (Stable)
Fund Based Limits	128.00	
Non-fund Based Limits	170.0	
Unallocated Limits	150.11	

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B)<sup>\*</sup> assigned to the Rs. 521.89 crore<sup>†</sup> (reduced from the earlier Rs. 586.96 crore) term loans, Rs. 128.00 crore (reduced from the earlier Rs. 180.0 crore) fund based limits, Rs. 170.0 crore non-fund based limits and Rs. 150.11 crore (increased from the earlier Rs. 33.04 crore) unallocated limits of IREO Private Limited (IPL). The outlook on the rating has been changed to Stable from Positive.

ICRA's assessment to revise the rating outlook follows lower incremental sales and collection from customers in FY15 as compared to ICRA's expectation leading to moderation in future cash flow visibility. IPL witnessed significant moderation in incremental sales booking; registering sales of 0.14 mn sq ft in FY15. Further, customer collections stood at Rs. 560 crore, a decline of 23% compared to FY14. In addition, the rating factors in the marketing risk which is further accentuated given that IPL has around 2 mn sq ft of area pending to be booked and large part of the developable area (and its land bank) is concentrated in a specific micro market (sector 58-61 of Gurgaon, Haryana). Further the pending inventory is primarily concentrated within the premium segment where the sales velocity has remained even more tepid than the mid-price segment. This apart, intermediate stages of construction at Skyon, Gurgaon Hills and Ascott Service Apartments, continues to expose it to execution risks. ICRA has taken note of IPL's intent to continue its focus on execution inspite of muted sales. Consequently, project execution is expected to keep the debt at high levels in the near to medium term in absence of adequate customer collections. The rating also takes into account the impact of rising overhead costs which has resulted in contraction of operating margins from 28.4% in FY14 to 23.5% in FY15 despite a 16% growth in operating income. The rating, however, is supported by low approval risks and IPL's focus on execution of projects. Since the last rating exercise, IPL has offered possession for some towers in its maiden projects - Grand Arch and Uptown project, which establishes its ability to complete projects. The company is also in the process of getting full occupation certificate for both the project in next couple of months which will enable it to raise final possession linked demand from its customers thus supporting the cash flows. Further, incremental bookings in these projects will result in free cash flows for the company considering large part of expenses for these two projects has already been incurred. Also, the rating continues to draw comfort from IREO's experienced management and association of reputed construction agencies for its ongoing projects. Furthermore, rating continues to factor in IPL's fully paid-up low-cost land bank, which besides limiting committed payments, continues to provide financial flexibility to the company. While reaffirming the rating, ICRA has taken note of management's intent to reduce its overall debt levels through monetization of some of its land bank in the near to medium term.

Besides, ICRA notes that the promoter of the company is a close-ended real estate fund with its maturity due in 2017; the investment made by the promoter in IPL is in a mix of equity, fully convertible debentures and preference shares. Any significant outflow from IPL towards the redemption or return provided to the promoters would adversely impact its financial risk profile. Going forward, IPL's ability to improve its sales momentum, collection efficiency and execute projects in a timely manner; land monetization resulting in

reduced leverage levels, and extent as well as mode of returns provided to the investors would be amongst the key rating sensitive factors.

<sup>\*</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other rating publications

<sup>†</sup> 100 lakh = 1 crore = 10 million



### **Company's Profile**

IREO Private Limited (IPL) was set up as a Special Purpose Vehicle (SPV) to develop a mixed use township in Gurgaon. IPL (erstwhile Orange Realty Private Limited) has been promoted by IREO Investment Holding III Ltd registered in Mauritius. IREO has capitalized the SPV to the tune of Rs. 1719 crore as on March 31, 2015 which includes a mix of Equity, Fully Convertible Debentures (FCD) and Redeemable Preference Shares (RPS) directly and through its intermediate holding companies. Currently, IPL is developing around 6.91 million square feet (mn. sq.ft), mainly spread across Sector 58, 59, 60 and 66 in Gurgaon.

IREO is a foreign private equity fund established to directly invest in the Indian real estate sector. IREO group had raised over USD 1.7 billion. IREO Group is engaged in real estate development in residential, commercial and hospitality sectors. As a business strategy IREO group focuses on Tier - 1 cities and their expansions. Presently it has over 14 investments in cities like Gurgaon, Delhi, Ludhiana, Goa (South Maharashtra), Panchkula, Mohali, and Chennai.

### **Recent Results**

In FY15, IPL reported a net profit of Rs. 22.64 crore on an operating income of Rs. 815.25 crore as compared to a net profit of Rs. 26.15 crore on an operating income of Rs. 702.15 crore a year ago.

**September 2015**

*For further details please contact:*

*Analyst Contacts:*

**Mr. Rohit Inamdar**, (Tel No. +91-124-4545847)  
rohit.inamdar@icraindia.com

*Relationship Contacts:*

**Mr. Vivek Mathur**, (Tel. No. +91-124- 4545310)  
vivek@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

1802, 18th Floor, Tower 3,  
Indiabulls Finance Centre,  
Senapati Bapat Marg,  
Elphinstone, Mumbai 400013,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Bangalore****Mr. Jayanta Chatterjee**

Mobile: 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: 989986490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-  
79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: 989986490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 99, CTS 3909, Range Hills  
Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B, Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500