

New World Landmark LLP

February 08, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Term Loan	120.00	150.00	[ICRA]BBB- (Stable); Revised from [ICRA]BB+(Stable); Removed from Issuer Not Cooperating category
Total	120.00	150.00	

*Instrument details are provided in Annexure-1

Rationale

In December 2018, ICRA downgraded the rating assigned to the Rs. 120-crore term loan of New World Landmark LLP (NWLLP) on the basis of best available information, including the estimated repayments due on this loan. The firm has during the current year refinanced the earlier term loan with a fresh loan of Rs. 150 crore.

The assigned rating favourably factors in the terms of its new construction loan, which provides additional funding for the launch of the second phase of the High Mont project, as well as the elongated repayment schedule with long moratorium, which reduces its repayment pressures in the near term, and the escrow mechanism with mandatory prepayment through 50-65% of collections from the project. The rating also derives comfort from the favourable location of the project in Hinjewadi Phase II, Pune, which houses some of the largest IT parks in the city. The rating also takes into account the advanced construction stage of Phase I, which is likely to support the sales prospects for the remaining inventory. The rating further draws strength from the significant experience of the partners in real estate business in Pune city and the Group's good track record of over three decades.

However, the ratings are constrained by the firm's the limited scale of operations with only a single project being developed at present, thus giving rise to project concentration risk. The ratings further factors in the delay in launch of Phase II of the project and deferment of associated cash flows, high execution and market risk in relation to Phase II, stiff competition from other similar projects in the vicinity and geographical concentration risk with the Group's presence limited to the Pune. ICRA notes that the firm has revised its development plans for Phase II with an increase in saleable area and the requisite regulatory approvals for the same are yet to be fully received.

Outlook: Stable

ICRA believes NWLLP will continue to benefit from the extensive experience of its partners in real estate development in Pune. The outlook may be revised to Positive if substantial growth in sales and timely launch of the second phase results in improved receipt of customer advances. The outlook may be revised to Negative if lower-than-expected free cash flows because of low sales or high investments in Group entities or land, weaken the company's liquidity position.

Key rating drivers

Credit strengths

Favourable terms of the new construction loan - The firm refinanced its earlier construction loan of Rs. 120 crore with a new construction loan with a sanctioned limit of Rs. 150 crore. It enjoys a longer tenure of 90 months, as well as a moratorium period of 66 months. The new loan provides additional debt financing to NWLLP (for funding the second phase) and the elongated repayment schedule with a long moratorium reduces repayment pressures in the near term.

The construction loan has a principal prepayment feature with an escrow mechanism, whereby the firm is required to prepay the principal to the extent of 50-65% of the collections received into the escrow account. Hence, it is expected to prepay a significant amount of the loan during the moratorium period itself.

Attractive location of the project surrounded by major IT companies - The project is located in Hinjewadi, which is in the north-west outskirts of Pune. The project lies in proximity to Rajiv Gandhi IT Park, which hosts many reputed software companies. The presence of these software companies in close vicinity is expected to enhance the marketability of the project.

Advanced stages of construction of Phase I - The firm is approaching completion of Phase I of the project, which is expected to be ready for handover by March 2019. The advanced stage of construction of this phase is likely to boost future sales of the remaining inventory in Phase I and also aid in marketing of Phase II, which is yet to be launched.

Extensive experience of promoters in the real estate industry - The firm belongs to the Mittal Brothers Group, which has a track record of more than four decades in real estate development in Bangalore. The Group has successfully completed several residential and commercial projects encompassing 1.6 million square feet (msft) of constructed area and has another five ongoing projects having a saleable area of 1.4 msft.

Credit challenges

Single project SPV - At present, NWLLP has a single ongoing project, developed in two phases. Hence there is limited diversification in terms of operations and all its future cash flows are dependent on this single project. The modest scale of operations restricts the firm's business diversification and financial flexibility.

High regulatory, market and execution risk with respect to upcoming phases of the project - The launch of Phase II of the project was delayed due to a change in development plans for this phase, which resulted in deferment of associated cash flows. Given that the phase is yet to be launched, market risk and execution risk associated with Phase II remain high. ICRA also notes that the firm has revised its development plans for Phase II with an increase in saleable area and the requisite regulatory approvals for the same are yet to be fully received.

Significant concentration risk arising from presence mainly in Pune - All of the Group's past, ongoing and upcoming projects are concentrated in Pune. The geographical concentration exposes the Group to any slowdown in demand or increase in competition in these micro-markets.

Liquidity position

For Phase I of the project, the firm has limited balance cost to be incurred as against expected value of receivables and unsold inventory of close to Rs. 127 crore. Based on the recent sales trend in Phase 1, the cash flows are likely to be comfortable to meet the pending costs in Phase 1, while also prepaying the debt to a significant extent. The launch of Phase II will enhance NWLLP's funding requirement, which will be supported by an undrawn limit of Rs. 55.77 crore out of the total sanctioned amount of Rs. 150 crore. The prepayment of the term loan is linked to the collections from the project, thereby reducing the pressure on liquidity. The available credit lines and comfortable moratorium period are expected to support the liquidity profile in the near term, in addition to the interest reserve of three months that is maintained.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real estate entities
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

About the company:

NWLLP is a limited liability partnership firm belonging to the Mittal Brothers Group. The Group has successfully completed 25 residential and commercial projects encompassing 1.6 million square feet (msft) of constructed area. At present, NWLLP is developing the High Mont project with a saleable area of 1 msft in Hinjewadi Pune. The project is being developed in two phases and caters to middle income group segment. The first phase is nearing handover, whereas the second phase is expected to be launched by the end of FY2019.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	0.00	0.00
PAT (Rs. crore)	0.01	0.01
OPBDIT/OI (%)	NM	NM
RoCE (%)	0.01%	0.01%
Total Debt/TNW (times)	5839.06	3862.77
Total Debt/OPBDIT (times)	-109.80	-551.82
Interest Coverage (times)	NM	NM

*NM-Not Meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore)	Date & Rating February 2019	Date & Rating in FY2019 December 2018	Date & Rating in FY2018 June 2017	Date & Rating in FY2016
1 Term Loan	Long Term	150.00	92.44	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	NA

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
NA	Term Loan	Sep-2018	NA	Mar- 2026	150.00	[ICRA]BBB- (Stable)

Source: New World Landmark LLP

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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