

City Realty And Development Pvt. Ltd.

February 11, 2019

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Unallocated limits	250.00	Provisional [ICRA]BBB(SO) (Stable); assigned
Total	250.00	

*Instrument details are provided in Annexure-1

Rationale

An SO rating is specific to the rated issue, its terms and its structure. An SO rating does not represent ICRA's opinion on the general credit quality of the issuers concerned. The SO rating assigned to proposed bank lines of City Realty And Development Pvt. Ltd. (CRDPL or the company) signifies the presence of a debt service reserve account (DSRA) and an escrow structure. The rating assigned is provisional as of now (as denoted by the symbol Provisional prefixed to the rating symbol) and is subject to the fulfilment of all the conditions under the structure and review of final documentation pertaining to the facility rated by ICRA, besides the executed actions/documentation being in line with ICRA's expectations. The final rating may differ from the provisional rating in case the completed actions/ documentations are not in line with ICRA's expectations.

The rating assigned to the proposed bank lines for CRDPL draws comfort from the extensive experience of the promoter group (City Group) spanning over three decades in the Pune real estate market as well as the strong tenant profile of its retail leasing operations. In the past, the company faced weak performance of its retail leasing operations because of increased competition in the micro-market, which in turn impacted its negotiating power with tenants. ICRA notes that, with the competing retail area getting absorbed, the demand-supply dynamics have improved for CRDPL, resulting in improving occupancy and rent rates. The rating draws comfort from the moderate leveraging in the proposed loan (Debt / Projected EBITDA of 7.3 times) and the 15-year tenor of the loan, which would result in comfortable debt coverage metrics. The rating assigned also factors in the presence of an escrow structure and DSRA (equivalent to one quarter's principal and interest payments) as per the terms of the proposed loan.

The rating, however, is constrained by the moderate vacancy risk as well as tenant concentration risk faced by the company. Over FY2020-FY2021, nearly 20% of the total leasable area would become due for renewal, which is significant as the company is at present operating at around 70% occupancy level. However, the risk is partly mitigated by CRDPL's demonstrated ability to negotiate better renewal terms with existing tenants as well as add new tenants with strong brands over the recent quarters. CRDPL faces moderate tenant concentration risk as the top five tenants accounted for 34% of the leased space as of December 2018; however, the risk is partly mitigated by its long-term association with these key tenants.

Outlook: Stable

The Stable outlook on the long-term rating reflects ICRA's belief that the mall operations would witness healthy improvement over the near term led by escalation in rental with existing and new tenants, while gradually improving the occupancy. The outlook may be revised to Positive if the rental income growth is higher than expected and the cash surplus is utilised for accelerated debt repayment. However, the outlook may be revised to Negative if the company

undertakes any major debt-funded capex in the medium term or if there is significant reduction in its occupancy level, which may lead to a weakened credit profile. The rating would also face downward pressure in case of any major cash outflow corresponding to its outstanding contingent liabilities, which may lead to increased leverage.

Key rating drivers

Credit strengths

Extensive experience of the promoter in the real estate industry – The Pune-based City Group is involved in real estate development of residential as well as commercial real estate projects through its flagship company City Corporation Limited (CCL) and its subsidiaries. The Group is promoted by Mr. Aniruddha Deshpande (Managing Director) and has been into construction and real estate development for more than three decades. In the past, the Group has completed several residential projects encompassing ~35.3 lakh square feet of constructed area. At present, the Group is developing five residential projects with a total saleable area of 49.7 lakh square feet in its Amanora Park Town project in Hadapsar, Pune.

Reputed tenant profile and long-term association with key tenants – CRDPL has a reputed tenant profile since inception. At present, it houses 1000 plus brands such as Harley Davidson, H&M, Vero Moda, Decathlon, and New in Vogue for U (NVU) among many others. Most of the tenants have been in the mall since the inception in 2011.

Favourable location of the project – CRDPL's 1.05 million square feet (msf) leasable retail space is located in Hadapsar (Pune), which is close to key city areas such as Koregaon Park, Viman Nagar, and Kharadi.

Presence of DSRA in the proposed arrangement – As per the proposal given by the company, all the rentals and revenues from maintenance of Amanora Mall would be escrowed and a DSRA equivalent to one quarter's debt obligation would be created. This arrangement would significantly reduce the lender's risk.

Credit challenges

Moderate vacancy risk – At present, CRDPL is operating the Amanora Mall at ~70% occupancy level. Unfavourable demand-supply dynamics in the past had led to increased vacancy levels. However, with new tenants tied up over last 12 months as well as advanced stage discussion with prospective tenants considerably mitigates the risk.

Moderate tenant concentration risk – The tenant concentration risk for CRDPL remains moderate high as the top five tenants accounted for ~34% of the leased space as of December 2018. However, the risk is partly mitigated as the company has a long-term association with the key tenants.

Liquidity position

During FY2017 to FY2019, the free cash flows of CRDPL were supported by sales revenue from the residential real estate project. Despite no such revenue stream from FY2020, its free cash flows are expected to be healthy led by steadily growing leasing revenue on the back of rental escalations and increasing occupancy. There will be a DSRA equivalent to one quarter's debt obligations for the proposed loan. Availability of such reserve would support the company's liquidity profile.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals
Parent/Group Support	Not Applicable
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer.

About the company:

CRDPL was incorporated in 2005 as a joint venture (JV) between Horizon Ventures (a retail-led mixed-use real estate focussed fund incorporated under the laws of Mauritius) and City Corporation Limited (CCL; part of the Pune-based City Group), whose shareholdings in the company were 51% and 49%, respectively as on March 31, 2016. In FY2017, CCL increased its stake to 55% and in December 2017, CCL bought back 45% stake from the private equity fund through its wholly-owned subsidiary, Amanora Future Towers Private Limited. Thus, CRDPL has become a step-down subsidiary of CCL.

CRDPL has constructed the retail mall and office units of the Amanora Town Centre, which is part of a larger 400-acre township project, Amanora Park Town, located at Hadapsar in Pune. The mall commenced operations in August 2011. The company has also developed residential project named Neo Towers with a total saleable area of 6.93 lakh sq. ft. in Amanora Park Town.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	170.5	195.4
PAT (Rs. crore)	12.4	41.1
OPBDIT/OI (%)	38.1%	39.0%
RoCE (%)	15.5%	17.7%
Total Debt/TNW (times)	4.8	3.1
Total Debt/OPBDIT (times)	4.5	4.1
Interest Coverage (times)	1.4	2.8

Status of non-cooperation with previous CRA: Not applicable

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 February 2019	Date & Rating in FY2019 April 2018	Date & Rating in FY2018 October 2017	Date & Rating in FY2017 August 2016	Date & Rating in FY2016 June 2015	
1 Unallocated limits	Long Term	250.00	-	Provisional [ICRA]BBB (SO)(Stable)					
2 Fund based– Term Loan	Long Term	-	-	-	[ICRA]D; Withdrawn	[ICRA]D	[ICRA]D	[ICRA]D	

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	Unallocated limits					Provisional [ICRA]BBB(SO)(Stable) Source: CRDPL

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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