

June 24, 2019

City Realty And Development Pvt. Ltd.: Provisional rating confirmed as final

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	250.00	250.00	Provisional [ICRA]BBB (SO) (Stable) confirmed as final
Total	250.00	250.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA had, in February 2019, assigned a rating of Provisional [ICRA]BBB (SO) (Stable) to Rs. 250.0-crore proposed bank lines of City Realty And Development Pvt. Ltd. (CRDPL). After review of the executed transaction documents the said rating has now been confirmed as final.

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 the 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 as well as proposed corporate guarantee to be provided by City Corporation Limited (CCL; rated [ICRA]BBB (Positive)).

The rating assigned to the term loan of 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 loan (Debt / Projected EBITDA of around 7.1 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 month's principal and interest payments) as well as proposed corporate guarantee from its ultimate parent CCL.

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 75% 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 rental collections in FY2019; 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 ~5.76 million square feet (msf) of constructed area. At present, the Group is developing four residential projects with a total saleable area of 4.18 msf in its Amanora Park Town project in Hadapsar, Pune.

Reputed tenant profile and favourable project location – 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. CRDPL's 1.05 msf leasable retail space is located in Hadapsar (Pune), which is close to key city areas such as Koregaon Park, Viman Nagar and Kharadi.

Comfortable debt coverage metrics – The rating draws comfort from the moderate leveraging in the loan (Debt / Projected EBITDA of around 7.1 times) and the 15-year tenor of the loan, which would result in comfortable debt coverage metrics.

Corporate guarantee from ultimate parent – As per the terms of the loan sanctioned, all the rentals and revenues from maintenance of Amanora Mall would be escrowed and a DSRA equivalent to one month's debt obligation would be created. Additionally, corporate guarantee to be provided by CRDPL's ultimate parent CCL further reduces the lender's risk.

Credit challenges

Moderate vacancy risk – At present, CRDPL is operating the Amanora Mall at around 75% 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 considerably mitigates the risk.

Moderate tenant concentration risk – The tenant concentration risk for CRDPL remains moderately high as the top five tenants accounted for ~34% of the rental collections in FY2019. 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 cash flows from the residential real estate project. Such cash flows are expected to taper to nil over FY2020 as the project has been completed and almost entire inventory has been sold. The free cash flows from leasing segment are expected to be comfortable, led by steadily growing leasing revenue on the back of rental escalations and increasing occupancy. Over the near term (FY2020-FY2021), the company plans to undertake capex of ~Rs. 30 crore which would be majorly funded by term debt already sanctioned.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals
Parent/Group Support	The rating assigned to CRDPL factors in the reasonable likelihood of its parent, CCL [rated [ICRA]BBB (Positive)], extending financial support to it because of close business linkages between them. We also expect CCL to be willing to extend financial support to CRDPL out of its need to protect its reputation from the consequences of a group entity's distress. There also exists a consistent track record of CCL having extended timely financial support to CRDPL in the past, whenever a need has arisen.
Consolidation / Standalone	Standalone

About the Parent:

CCL is the flagship company of Pune based City Group which is engaged in real estate development. CCL was incorporated in 2003 to undertake development of Amanora Park Town, an integrated township project located at Hadapsar, Pune. At present, CCL is undertaking development of three projects Gateway Towers, Adreno Towers and Gold Towers (phase-1 and phase-2). Along with real estate development, CCL also undertakes management of the township. CCL also has 'Amanora Club' which provides work class sports and leisure facilities to the residents of township and other citizens of Pune. It has also installed 1.6 MW of wind power at Satara. CCL has two subsidiaries AFTPL and CRDPL which is also in a similar line of Business. AFTPL has developed Amanora Future Towers residential as well as commercial project whereas CRDPL owns and operates Amanora Mall and developing Neo Towers residential project in Amanora Park Town, Hadapsar Pune.

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 0.7 msf 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 (FY2020)				Chronology of Rating History for the Past 3 Years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017	
				June 2019	June 2019	February 2019	April 2018	October 2017	August 2016	
1 Unallocated limits	Long Term	0.00	-	-	-	Provisional [ICRA]BBB (SO) (Stable)				
2 Fund based– Term Loan	Long Term	250.00	245.00	[ICRA]BBB (SO) (Stable)	Provisional [ICRA]BBB (SO) (Stable)	-	[ICRA]D; Withdrawn	[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	Term Loan	Mar-2019	-	FY 2034	250.00	[ICRA]BBB (SO) (Stable)

Source: CRDPL

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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