

October 14, 2019

## Naman Mall Management Company Pvt. Ltd.: Rating downgraded to [ICRA]BBB+(Stable)

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term- fund based	95.00	95.00	[ICRA]BBB+ (Stable); downgraded from [ICRA]A- (SO) (Stable)
<b>Total</b>	<b>95.00</b>	<b>95.00</b>	

\*Instrument details are provided in Annexure-1

^ In line with the SEBI guidelines, ICRA has discontinued the use of the (SO) suffix alongside rating symbols for denoting the ratings of instruments backed by structural features (such as Escrow and DSRA). Thus, the revised rating does not carry the (SO) suffix.

### Rationale

The revision in rating factors in reduction in occupancy of TI Next Mall from ~86% in July 2018 to ~82% in July 2019 as against ICRA's expectation of improvement. The rating action also reflects weak profitability and consequently debt coverage indicators of Naman Mall Management Company Pvt. Ltd. (NMMCPL) on account of high overheads including some one-time expenses. The company could not tie-up any incremental leases between October 2018 and August 2019 on account of freeze on new leasing due to a pending litigation which weakened the business as well as financial risk profile.

The rating remains constrained by the high lessee concentration risk as the top five tenants account for ~73% of the total rental revenue and exposure to competition in Indore real estate market. Apart from this, ICRA notes that the rental revenues of the mall will also remain contingent on the eventual operational performance of the tenants. Any prolonged slowdown in the business activity affecting the footfall as well as the spending ability of the ultimate customers may have an impact on the tenant revenues and the occupancy rates of the mall. Additionally, any spill over effect of the past litigation may weaken the credit risk profile of the company.

The rating continues to draw strength from the strong management team and promoter of NMMCPL - Nexus Malls, the Indian Retail Portfolio arm of The Blackstone Group, which currently holds 70% stake in the company and handles the company's operations. The rating also factors in the favourable location of the mall at South Tukoganj, which is a major commercial place in the city of Indore in Madhya Pradesh. The rating also draws support from the reputed tenant profile which includes anchors such as H&M, Reliance Trends, Inox, Central and Smaaash. Further, ICRA notes that the company has started new leasing tie-ups from September 2019 for the balance area which is expected to improve the rental revenue from Q4 FY2020. The leasing is expected to be ~95% towards the end of FY2020 based on current leasing pipeline. The management is also focussed on improving the cost structure of the company and resultantly the debt coverage indicators are expected to improve. The rating takes into account the low renewal risk with no major renewals falling due over the next three years. ICRA also factors in the presence of DSRA equivalent to two months of debt obligations as well as an escrow structure for the term loans.

## Key rating drivers and their description

### Credit strengths

**Strong promoter group:** The company's current majority shareholder is Nexus Malls (Retail platform of Blackstone Real Estate Partners), the world's largest real estate private equity firm with large investments in India. The established track record of Nexus Malls in real estate sector and diverse portfolio in retail real estate business in India provides comfort. Presence of the Nexus Malls is expected to benefit the mall in terms of operational and financial synergies due to large retail portfolio.

**Low lease renewal risk in near to medium term; reputed tenant profile:** All the anchor tenants have lease period ranging from nine to twenty-five years while for most of the vanilla stores, range is in between four to five years. No major renewals are falling due over the next three years with the earliest renewal due in FY2023 for few vanilla stores. Additionally, the mall has a set of tenant profile consisting of reputed names.

**Presence of structural features such as escrow and DSRA:** The company has maintained a DSRA reserve of Rs. 1.65 crore equivalent to two months principal plus interest obligations as on March 2019. Further, escrow mechanism is in place to ensure transparency in cash flows.

### Credit challenges

**Modest debt coverage indicators due to fall in occupancy and higher overheads** - The mall could not tie-up any leases during October 2018 to August 2019 due to a pending litigation. Resultantly, the occupancy level remained below par. Further, high overheads and one-time expenses impacted the debt coverage indicators in FY2019. Though the leasing tie-ups have started again from September 2019, the coverage indicators are likely to improve only marginally in FY2020.

**Competition in Indore retail real estate market** - TI Next mall in Indore faces competition from similar retail assets and established main streets in the city. However, few major brands like H&M have exclusive tie-ups with the mall which ensure footfalls to the mall.

**Exposed to lessee concentration risk and susceptibility to vacancy risk** - Lessee Concentration risk is high for TI Next Mall as top five tenants contribute ~73% of rental revenue. However, considering favourable location of the mall the top tenants are expected to continue over the near to medium term. Though no major tenants have their lease renewal dates falling due in next three years except few office and vanilla stores, still the possibility of any major tenant vacating the property remains a key risk.

### Liquidity position: Adequate

NMMCP's liquidity is adequate supported by unencumbered cash and bank balance of Rs. 0.13 crore and a DSRA reserve of Rs 1.65 crores equivalent to 2 months of principal plus interest obligations as on March 31, 2019. Additionally, the company has a cash management policy in which the surplus cash is parked in the overdraft account which will help reduce the interest outgo. NMMCP's average monthly debt repayment obligations remain at ~Rs. 1.2 crore.

### Rating sensitivities

**Positive triggers** – ICRA could upgrade NMMCP's rating if the company demonstrates significant incremental leasing at adequate rates and considerable improvement in cost structure. Specific credit metrics that could lead to an upgrade of NMMCP's rating include cumulative DSCR of 1.2 times and above on a sustained basis.

**Negative triggers** – Negative pressure on NMMCPL’s rating could arise if there is delay in incremental leasing at adequate rates. Failure to improve the cumulative DSCR from current levels may also warrant a rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Debt Backed by Lease Rentals</a>
Parent/Group Support	As per ICRA’s assessment, in case of distress, there is high likelihood of Nexus Malls (Blackstone Group) extending financial support to NMMCPL, given their need to protect their reputation. The same has been factored in the rating.
Consolidation/Standalone	Standalone

## About the company

NMMCPL is currently a part of Nexus Malls Group. Blackstone Real Estate Partners, through Nexus Malls, acquired 70% stake in the company in the first quarter of FY2018. The remaining 30% stake is with Indore based Kalani Group. The company’s mall at Indore, Treasure Island Next (TI Next) mall, with total leasable area of 2.4 lakh square feet (sq. ft), has been operational since 2009. The mall underwent major refurbishment during FY2016 and FY2017 and re-opened to the public in the second quarter of FY2018. The mall has an occupancy level of ~82% as on July 2018 with diverse tenant categories such as food courts and dining (McDonald’s, Domino’s), multiplex (INOX), departmental stores (H&M, Lifestyle, Reliance Trends, etc.), various retails stores and entertainment zones (Smaaash).

## Key financial indicators (audited)

	FY2018	FY2019 (Provisional)
Operating Income (Rs. crore)	10.3	20.6
PAT (Rs. crore)	-47.3	-6.5
OPBDIT/OI (%)	-7.6%	40.6%
RoCE (%)	-50.5%	6.3%
Total Outside Liabilities/Tangible Net Worth (times)	-19.7	-9.5
Total Debt/OPBDIT (times)	-118.7	11.2
Interest Coverage (times)	-0.1	0.8
DSCR	-2.4	0.7

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 14-October 2019	Date & Rating in	Date & Rating in	Date & Rating in
					FY2019	FY2018	FY2017
1 Term Loan	Long Term	95.00	93.42	[ICRA]BBB+ (Stable)	[ICRA]A- (SO) (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](http://www.icra.in)

## Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Feb-2018	-	29-Feb-2028	95.00	[ICRA]BBB+ (Stable)

Source: NMMCPL

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