

November 08, 2019

Piramal Realty Private Limited: Rating on NCDs downgraded to [ICRA]A-(CE) (Negative)

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|-----------------------------------|-----------------------------------|----------------------------------|--|
| Non-Convertible Debentures (NCDs) | 350.00 | 350.00 | Downgraded to [ICRA]A-(CE) (Negative) from [ICRA]A+(CE) (Negative) |
| Total | 350.00 | 350.00 | |

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement

[ICRA]BBB-

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. The change in suffix is not to be construed as a change in rating. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The revision in the rating for the NCD programme of Piramal Realty Private Limited (PRPL) is driven by the deterioration in the operating environment owing to tight liquidity in the market, that may diminish the resource mobilisation ability of the holding / investment entities to raise funds from the market. Furthermore, the company may need to refinance a significant quantum of debt due for repayment in FY2020 given the limited standalone financial strength of the company. The guarantors (The Sri Krishna Trust (SKT) and PRL Realtors LLP (PRL)) derive their strength from having ~44% shareholding in Piramal Enterprises Limited (PEL; rated [ICRA]AA (Negative) / [ICRA]A1+); however, cashflows for the guarantors are dependent on the dividend income received from PEL. PRPL has significant investments / advances in real estate projects / companies. Given the muted sentiment in the real estate sector, timely recovery of these investments / advances is likely to be a challenge in the short-term.

Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee provided by SKT and PRL (guarantors) in favour of the said NCDs. Taking cognizance of the above credit enhancement, ICRA has assigned a rating of [ICRA]A-(CE) to the said NCD, against the Unsupported Rating of [ICRA]BBB-. The rating of this facility may also undergo a change if, in ICRA's assessment, there is a change in the strength of the business links between the guarantors and the rated entity.

Salient covenants related to the credit enhancement, as specified in the terms of the transaction

- » *The guarantee explicitly mentions that it shall be irrevocable and unconditional, valid and remain binding on guarantors and remain operative till NCDs are fully redeemed.*
- » *The guarantee has a well defined payment mechanism to ensure that the payments to the NCD investors are made in a timely manner post invocation of guarantee*

Key rating drivers

Credit Strengths

- Guarantee from SKT and PRL, the key holding entities of the Piramal Group
- Payment mechanism designed to ensure timely payment to the NCD investors
- SKT holds 39.6% shareholding in PEL and is the single largest shareholder in PEL as on September 30, 2019. Furthermore, PRL also holds 4.5% equity stake in PEL as on September 30, 2019
- The total debt guaranteed by SKT and PRL (~Rs. 2,425 crore) is small in relation to the market value of their holdings / investment in PEL (~Rs. 14,700 crore as on October 31, 2019)

Credit Challenges

- Refinancing risks given the high repayments due in the near-term
- Deterioration in operating environment

Description of key rating drivers highlighted above for CE rated NCDs:

The NCD of Rs. 350 crore would have a scheduled tenor of 36 months from the deemed date of allotment. The principal amount on the NCDs would be payable in one bullet installment on the scheduled maturity date and coupon shall be payable on a quarterly basis. The joint and several guarantees from SKT and PRL would cover all Issuer obligations that may arise on the rated NCDs. The payment mechanism is designed to ensure timely payment to the NCD investors, as per the terms of the transaction.

The rating for the NCDs is based on the strength of unconditional, irrevocable and continuing guarantee by SKT and PRL. The transaction also envisages an external borrowing cap together on both SKT and PRL linked to the market value of the free and unencumbered shares of PEL held by these entities, which provides further comfort.

The company had a total guaranteed debt of Rs. 350 crore as on October 31, 2019 which is due for repayment in FY2020. Given the tight liquidity conditions prevalent in the market, the company may be exposed to refinancing risks in the short term.

Liquidity position: Stretched

The family office entities in the Piramal Group have a combined liquidity of ~Rs. 400 crore as on June 30, 2019. The guarantors, SKT and PRL, do not have any external debt. Furthermore, SKT is the largest shareholder in PEL and has flexibility to raise funds by liquidating its shareholding in PEL (if required). The two guarantors (SKT and PRL) together hold ~44% equity stake in PEL as on September 30, 2019. As on March 31, 2019, PRPL had a cash and bank balance of ~Rs. 37 crore. The liquidity available at both family office and PRPL level is low as compared to the repayment obligations due in the short-term

Rating sensitivities

Positive triggers: Improvement in the credit profile of the key Group entities PEL and Piramal Capital & Housing Finance Limited (PCHFL), ability to refinance / repay its near-term debt obligations, deleverage balance sheet of PRPL.

Negative triggers: Deterioration in the credit profile of the key Group entities, PEL and PCHFL, reduction in market value of free and unencumbered investments held by the guarantors

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable Rating Methodologies | Approach for rating debt instruments backed by third-party explicit support |
| Parent / Group Support | The CE rating is based on the unconditional and irrevocable guarantee from SKT and PRL that would cover all the repayment obligations to the NCD holders as per the terms of the transaction. |
| Consolidation / Standalone | Not applicable, since the CE ratings are based on the unconditional and irrevocable guarantee from SKT and PRL. |

About the company

PRPL was setup in 2010 and had its presence in the real estate sector through subsidiaries/step-down subsidiaries/LLPs which have projects housed in it or through Joint ventures. The company no longer has any real estate projects projects. The sole shareholder for PRPL is Sri GopiKrishna Trust which is another trust company under the Piramal Group. In FY2017, the company had started commodity (primarily gold and silver) trading business and operating income for both FY2018 and FY 2019 consists of majorly commodity sale revenue. Additionally the company generates interest income from the investments/advances given by it to various real estate projects.

Key financial indicators

| | FY2018 (audited) | FY2019 (provisional) |
|--|------------------|----------------------|
| Operating Income (Rs. crore) | 810.2 | 710.2 |
| PAT (Rs. crore) | 35.3 | 10.3 |
| OPBDIT/OI (%) | 45.2% | 48.3% |
| RoCE (%) | 11.3% | 11.7% |
| Total Outside Liabilities/Tangible Net Worth (times) | 14.4 | 11.5 |
| Total Debt/OPBDIT (times) | 8.1 | 7.2 |
| Interest Coverage (times) | 1.2 | 1.0 |
| DSCR | 0.1 | 0.2 |

About the Guarantors

The Sri Krishna Trust was incorporated in 2005 for managing the investment holdings of the promoters in PEL (rated [ICRA]AA (Negative) / [ICRA]A1+) and Piramal Phytocare Limited (PPL). Mr. Ajay Piramal and Dr. Swati Piramal are the trustees of SKT. As on September 30, 2019, the promoter Group holding in PEL was 46.1% (of which 39.6% was held via SKT) and in PPL was 56.08% (of which 33.10% was held via SKT). On May 28, 2018, the board of directors of PEL approved the scheme of amalgamation between PPL and PEL. Predominantly, the trust generates dividend income from its investments in PEL. SKT had no external debt on its books as on March 31, 2019.

PRL Realtors LLP is another holding entity of the Piramal Group and held 4.5% shareholding in PEL as on September 30, 2019. PRL reported an operating income of Rs Rs. 22.43 crore in FY2019 from the dividend received from PEL. PRL had no external debt on its books as on March 31, 2019.

Key financial indicators of SKT (audited)

| | FY2018 | FY2019 |
|--|--------|--------|
| Operating Income (Rs. crore) | 158.7 | 197.2 |
| PAT (Rs. crore) | 154.7 | 131.8 |
| OPBDIT/OI (%) | 100.0% | 100.0% |
| RoCE (%) | 17.6% | 18.2% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.7 | 0.6 |
| Total Debt/OPBDIT (times) | 2.5 | 1.3 |
| Interest Coverage (times) | 39.9 | 8.2 |
| DSCR | 39.9 | 6.5 |

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

| Instrument | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Current Rating (FY2020) | | | Chronology of Rating History for the past 3 years | | | | | | |
|------------|-------------------------------------|--------------------------|--------------------------------|-------------------------|-------------------------|---------------------------|---|---|------------------------------------|------------------------------------|------------------------------------|------------------------|-------------------------|
| | | | | Date & Rating | | | Date & Rating in FY2018 | | | | Date & Rating in FY2017 | | Date & Rating in FY2016 |
| | | | | 08 November 2019 | 09 July 2019 | 23 April 2019 | 22 March 2018 | 30 January 2018 | 26 October 2017 | 13 June 2017 | 27 March 2017 | 07 Sep 2016 | - |
| 1 | Non-Convertible Debenture Programme | 250.00 | - | - | - | - | - | Provisional [ICRA]A+ (SO) (Stable); Withdrawn | Provisional [ICRA]A+ (SO) (Stable) | Provisional [ICRA]A+ (SO) (Stable) | Provisional [ICRA]A+ (SO) (Stable) | - | - |
| 2 | Non-Convertible Debenture Programme | 300.00 | - | - | - | - | - | [ICRA]A+ (SO) (Stable); Withdrawn | [ICRA]A+ (SO) (Stable) | [ICRA]A+ (SO) (Stable) | - | [ICRA]A+ (SO) (Stable) | - |
| 3 | Non-Convertible Debenture Programme | 350.00 | 350.00 | [ICRA]A-(CE) (Negative) | [ICRA]A+(SO) (Negative) | [ICRA] AA-(SO) (Negative) | [ICRA]AA-(SO) (Stable); | - | [ICRA]A+ (SO) (Stable) | [ICRA]A+ (SO) (Stable) | Provisional [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

Annexure-1: Instrument Details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|--------------|-----------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| INE680R07012 | NCD | Mar-17 | 9.50% | Mar-20 | 350.00 | [ICRA]A-(CE) (Negative) |

Source: Piramal Realty Private Limited

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408
subrata@icraindia.com

Abhilash Mishra

+91 22 6114 3421
abhilash.mishra@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431
gaurav.mashalkar@icraindia.com

Abhishek Dafria

+91 22 6114 3440
abhishek.dafria@icraindia.com

Kinjal Shah

+91 22 6114 3442
kinjal.shah@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents