

December 02, 2019

Neelanchal Realtors LLP: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based Facilities	50.00	50.00	[ICRA]A reaffirmed; outlook revised to Stable from Positive
Total	50.00	50.00	

*Instrument details are provided in Annexure-1

Note: Previously the rating was [ICRA]A (CE) (Positive). The (CE) suffix mentioned alongside the rating symbol indicated 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. This rating was specific to the rated instrument/facility, its terms and its structure and did not represent ICRA's opinion on the general credit quality of the entity concerned.

Rationale

The revision in the outlook takes into account the increasing leverage in the Group, on the back of the large-scale under-construction projects in the office leasing segment. The leverage - as measured by lease rental discounting (LRD) debt to annualized rental – stands at 5.4 times as on March 31, 2019. While the leverage remains comfortable for the current rating, positive triggers for the rating will be linked to timely completion and leasing of the ongoing projects and reduction in leverage. The Group has a completed lease income portfolio spanning across 6.53 msf (million square feet), with annualised rental inflows of Rs. 479.8 crore as on March 31, 2019. In FY 2020, an additional 4.0-4.5 msf will be completed, of which the Group has already completed 3.0 msf of commercial space as on Sep 2019. However, the full impact of the incremental rentals is expected to come through only in FY2021, extending support towards moderating the overall leverage.

The rating continues to derive support from the established position of the Salarpuria-Sattva group in the real estate market with track record of more than 33 years and development of over 48 million square feet (msf) of built-up area in both commercial and residential segments. The ongoing projects of the Group in Hyderabad would help to increase its scale and presence in locations other than Bangalore. The rating further draws comfort from strong financial flexibility and liquidity profile of the group, aided by moderate leveraging against the rental income portfolio and availability of undrawn, sanctioned credit limits.

The rating is, however, constrained by the Group's exposure to significant execution, market and funding risk arising from the ongoing and planned capital expenditure in the next 4-5 years. Any decline in the office space absorption trends in Hyderabad and Bangalore over the medium term could adversely impact the occupancy level in these projects considering the significant supply pipeline. However, the group has been able to demonstrate speedy execution and high occupancy in completed phases, hence mitigating the risks to some extent. The rating also factors in modest sales performance of the Group's residential projects over the last couple of years, impacted by the general slowdown being experienced in the residential market.

Key rating drivers and their description

Credit strengths

Established track record and brand recognition of the Group in real estate industry - The Salarpuria-Sattva Group is one of the leading real estate players in the Bangalore real estate market with strong brand recognition and established track record of more than 33 years. The Group has completed several residential and commercial projects in and around Bangalore and has plans to significantly increase its presence in Hyderabad in the next two-three years.

Healthy rental income from commercial segment – The Group receives stable rental income from its leased commercial properties, located in Bangalore and Hyderabad, characterised by high occupancy levels. The current completed portfolio stands at 6.53 msf and has established tenants like JPMC, Microsoft, Novartis, Google, State Street, etc. In FY 2020, an additional 4.0-4.5 msf will be completed, of which the Group has already completed 3.0 mn sft of commercial space as on Sep 2019.

Strong financial flexibility in the Group – The Group enjoys strong financial flexibility and comfortable liquidity against its commercial leasing portfolio on account of undrawn sanctioned lease rental discounting (LRD) limits with adequate drawing power, potential for further LRD top-up, if required. The group has annualized rental income of Rs 479.8 crore as on March 2019, as against which the LRD debt outstanding was Rs 2590.4 crore.

Credit challenges

Increasing leverage; however, expected to moderate in future – Overall debt in the Group has increased to Rs. 4795 crore as on August 2019 from Rs. 2881 crore as on March 2018, on the back of the large-scale under-construction projects in the office leasing segment. The leverage - as measured by lease rental discounting (LRD) debt to annualized rental – stands at 5.4 times as on March 31, 2019. Notwithstanding the increasing leverage, the debt coverage indicators remain comfortable backed by the long tenure of the LRD loans availed. With timely completion of additional projects under implementation, the leverage is expected to moderate going forward.

Significant execution and market risk – The group is exposed to significant execution risk considering the large capex planned to be incurred in the next two-three years. The group has plans to develop about 13.3 msf of leasable area in and around Hyderabad and Bangalore. Presently, around 50% of the area is pending to be tied-up through lease agreements; however, the Group is under various stages of discussion with prospective clients and the current demand trends are also expected to support high occupancy levels upon completion of the projects.

Sensitive to external market factors - The company is also exposed to external factors such as the inherent cyclicity in the real estate industry and regulatory risks, which could have an impact on the cash inflows from the residential segment of the company.

Liquidity position: Adequate

Over the next year, stable rental income and adequate inflows from the residential and contract segment are expected to be sufficient to meet all the operational, and debt servicing requirements of the company. Presence of undrawn LRD debt and available LRD top-up surplus in the existing and upcoming (as and when completed) rental projects provides further liquidity support.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating if the group is able to achieve faster-than-expected construction and leasing in the office leasing portfolio. Specific credit metrics that could lead to an upgrade of rating include LRD debt to annualised rental remaining below 5 times on a sustained basis.

Negative triggers – Negative pressure on rating could arise in case there is delay in leasing tie-ups in the ongoing and upcoming commercial projects, leading to slower-than-expected ramp-up in rentals and lower-than-expected cash cover. Specific credit metrics that could lead to a downgrade of rating include LRD debt to annualised rental increasing above 6 times on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities Rating Methodology for Debt Backed by Lease Rentals
Parent/Group Support	Not Applicable
Consolidation/Standalone	ICRA has taken consolidated view of 56 companies of the Salarpuria-Sattva Group, based on the strong operational and financial linkages between the group entities and their common management group.

About the company

Neelanchal Realtors LLP (NRL), part of the Salarpuria - Sattva Group, is implementing a residential real estate project named Navaratna at Coimbatore. The group is currently being managed by Mr. Bijay Kumar Agarwal who is the Managing Director of the group. The group is one of the leading real estate developers in the Bangalore real estate market and has completed more than 48 million square feet of development in the past 33 years of its existence. The group is currently executing residential projects with total saleable area of around 6.7 million sqft, mainly consisting of residential projects in Bangalore. The group currently has a sizeable commercial real estate portfolio, generating annualised rental inflows of Rs. 479.8 crore as on March 31, 2019. The commercial properties of the group which are located in prime locations in Bangalore have witnessed high occupancy levels and house many reputed tenants such as Hewlett Packard India, HSBC, WM Global etc.

Key financial indicators

	FY2018*	FY2019*
Operating Income (Rs. crore)	1565.5	1777.5
PAT (Rs. crore)	462.1	480.7
OPBDIT/OI (%)	45.6%	41.2%
RoCE (%)	17.5%	14.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.1
Total Debt/OPBDIT (times)	4.9	6.3
Interest Coverage (times)	2.1	3.3
DSCR	2.4	2.5

*Based on consolidation done for ICRA's rating process

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017	
					02-Dec-2019	14-Sep-2018	27-July-2017	20-May-2016	28-April-2016
1	Fund-based facilities	Long Term	50.00	30.0*	[ICRA]A (Stable)	[ICRA]A (SO) (Positive)	[ICRA]A (SO) (Stable)	[ICRA]A (SO) (Stable)	[ICRA]A (SO) (Stable)

*Amount in Rs. Crore; *As on March 31, 2019*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Secured Overdraft	-	-	-	50.00	[ICRA]A (Stable)

Source: NRL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Devbhumi Realtors Pvt Ltd	Group Company	Full Consolidation
Softzone Tech Park Limited	Group Company	Full Consolidation
Darshita Infrastructure Pvt Ltd	Group Company	Full Consolidation
Salarpuria Properties Private Limited	Group Company	Full Consolidation
Worldwide Realcon Private Limited	Group Company	Full Consolidation
Haraparvati Realtors Pvt Ltd	Group Company	Full Consolidation
Rajmata Realtors Private Limited	Group Company	Full Consolidation
Poppy Realtors Private Limited	Group Company	Full Consolidation
Sattva Realtors Pvt Ltd	Group Company	Full Consolidation
Greenage Grihanirman Private Limited	Group Company	Full Consolidation
Debonair Realtors Pvt Ltd	Group Company	Full Consolidation
Salarpuria Grihanirman Private Limited	Group Company	Full Consolidation
Mindcomp Properties Pvt Ltd	Group Company	Full Consolidation
Sattva Developers Private Limited	Group Company	Full Consolidation
Mindcomp Tech Park Pvt Ltd	Group Company	Full Consolidation
Coremind Software & Services Private Limited	Group Company	Full Consolidation
S S Developers Pvt Ltd	Group Company	Full Consolidation
Darshitha Edifice Llp	Group Company	Full Consolidation
Neelanchal Realtors Llp	Group Company	Full Consolidation
Sattva Housing Private Limited	Group Company	Full Consolidation
Quadro Infotechnologies Private Limited	Group Company	Full Consolidation
Salarpuria Housing Private Limited	Group Company	Full Consolidation
Rajlaxmi Grihanirman Private Limited	Group Company	Full Consolidation
Salarpuria Developers Private Limited	Group Company	Full Consolidation
Sspl Property Management Private Limited	Group Company	Full Consolidation
Poorna Buildtech Pvt Ltd	Group Company	Full Consolidation
Salarpuria Real Estate Private Limited	Group Company	Full Consolidation
Sattva Real Estate Pvt Ltd	Group Company	Full Consolidation
Sattva Builders Pvt Ltd	Group Company	Full Consolidation
Moonlight Niketan Pvt Ltd	Group Company	Full Consolidation
Harkeshwar Realtors Private Limited	Group Company	Full Consolidation
Mascot Properties Private Limited	Group Company	Full Consolidation
Satern Grihanirman Private Limited	Group Company	Full Consolidation
Vedant Grihanirman Private Limited	Group Company	Full Consolidation
Bhojeshwar Realtors Private Limited	Group Company	Full Consolidation
Wellgrowth Grihanirman Private Limited	Group Company	Full Consolidation

Company Name	Ownership	Consolidation Approach
Pluto Realtors Private Limited	Group Company	Full Consolidation
Neelanchal Projects Llp	Group Company	Full Consolidation
Monotype Griha Nirman Pvt Ltd	Group Company	Full Consolidation
Neelanchal Lifestyle Housing Llp	Group Company	Full Consolidation
Neelanchal Dwelling Llp	Group Company	Full Consolidation
Darshita Hi-Rise Pvt Ltd	Group Company	Full Consolidation
Darshita Projects Private Limited	Group Company	Full Consolidation
Darshitha Build Tech Pvt Ltd	Group Company	Full Consolidation
Savitrimata Realtors Pvt Ltd	Group Company	Full Consolidation
Darshitha Southern India Happy Homes Private Limited	Group Company	Full Consolidation
Chinnamasta Properties Private Limited	Group Company	Full Consolidation
Moonlike Construction Private Limited	Group Company	Full Consolidation
Neelanchal High Rise Llp	Group Company	Full Consolidation
Sattva Infrastructure India Pvt. Ltd.	Group Company	Full Consolidation
Sattva Build-Con Pvt Ltd.	Group Company	Full Consolidation
Salarpuria Builders Pvt Ltd	Group Company	Full Consolidation
Siddeshwari Grihanirman Private Limited	Group Company	Full Consolidation
Darshita Housing Private Limited	Group Company	Full Consolidation
Eden Buildcon Limited	Group Company	Full Consolidation
Jaganmayi Real Estate Private Limited	Group Company	Full Consolidation

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