December 09, 2019

Chitrali Properties Private Limited: [ICRA]BBB-(Stable) assigned to Non-convertible Debenture programme

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture programme	80.00	[ICRA]BBB- (Stable); assigned
Long Term – Fund Based TL	320.00	[ICRA]A- (Stable); outstanding
Long Term – Interchangeable	(30.00)	[ICRA]A- (Stable); outstanding
Total	**400.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating draws strength the favourable location of Chitrali Properties Private Limited's (CPPL) retail property, Westend Mall, at Aundh which is an affluent suburb in Pune, Maharashtra. The mall faces limited competition due to absence of any other retail mall nearby. The rating also draws support from healthy occupancy level and tenant profile which includes reputed anchors such as Cinepolis, Shoppers Stop, H&M, Max, Pantaloons, Marks & Spencer and Project Eve. The lease renewal risk for the mall remains low as no major lease renewals are falling due over the next three years. Moreover, the rating factors in the steady cash flows from mall operations, resultant adequate projected debt coverage indicators along with presence of debt service reserve account (DSRA) equivalent to two months of debt obligations as well as an escrow structure for the loan. ICRA draws comfort from the strong management team and promoters of CPPL - Nexus Malls, the Indian Retail Portfolio arm of The Blackstone Group – which holds 50% stake in the company in partnership with Pune based, Sumashlip Group.

CPPL is developing an IT park above the mall with total leasable area of ~2.5 lakh sq. ft. The IT park is at advanced stage of construction with around 65% project cost already incurred. The company has refinanced the construction loan for the IT park with LRD facility against the rentals generated from mall operations, and pending cost of the project will be funded through the undrawn LRD facility.

ICRA notes that the Blackstone Group has subscribed to the rated zero coupon NCDs issued by CPPL, which are subordinated to the LRD facility. The rating reflects the flexible terms of the nonconvertible debenture (NCD), wherein there is no fixed interest payment or principal repayment obligation during the tenure of the NCDs on the quarterly redemption dates. The obligations on the NCD will accrue every year; however, the payment will be made based on the surplus cash flows available with the company, after meeting the operating expenses and the repayment obligations on the senior bank debt. The NCD will be redeemed at face value in case of redemption upto five years from the deemed date of allotment (December 13, 2016) and at 15% IRR in case of redemption post five years from the deemed date of allotment.

ICRA understands that there is no redemption planned in the near term and the repayment of the NCD along with redemption of preference shares issued to the SumaShilp group (shareholder for the remaining 50% stake) in equal proportion, is expected to be funded by raising fresh LRD facility against the rentals of the IT park before December 2021. Though timely completion of the project and ramp up in leasing at adequate rental rates remain important for redemption/repayment of promoter funds, the management has stated that these two payments will only be made once there is adequate cash surplus available with the company.

The rating is constrained by the project execution risk as well as occupancy risk of the IT park as currently there is no LOI signed for the IT park. The rating also factors in the moderate lessee concentration risk as the top five tenants account for ~31% of rental revenue. Although, the mall has no major renewals due in next three years, the possibility of any large tenant vacating the property remains a key risk. ICRA expects the competition to heighten in the near to medium term as the nearby geographies have attractive catchment area and ability of the mall to counter the competition effectively remains essential. The rental revenues of the mall also remain contingent on the eventual operational performance of the tenants. Any prolonged slowdown in the business activity of increased competition affecting the footfall as well as the spending by the ultimate customers may have an impact on the tenant revenues.

Key rating drivers and their description

Credit strengths

Favourable location of the Westend Mall – The Westend Mall is the only mall in Aundh, Pune with reputed brands. Aundh is an affluent suburb in Pune with well-developed socio-economic infrastructure. The residential real-estate prices in Aundh, have seen an uptrend over the last few years which has been largely driven by the demand coming from IT professionals. Its proximity to the Mumbai-Pune express way and connectivity to central business district, make Aundh a preferred residential micro market in Pune. There are major schools, colleges and companies in the catchment area of the mall as well. Further, the significant residential real estate development in the western part of Pune, primarily driven by IT sector has given rise to additional target group for the mall due to dearth of competing properties in the region. All these are reflected in healthy footfalls of the mall.

Healthy occupancy levels, reputed lessee profile and low renewal risk – The mall hosts a set of reputed tenants including names like Cinepolis, Shoppers Stop, H&M, Max, Pantaloons, Marks & Spencer and Project Eve. A combination of attractive catchment area and mall management capabilities have enabled the mall to attract healthy occupancy levels of ~93% as of September 2019. All the tenants have lease period ranging from 5 years to 15 years and average lock-in period is between 3 to 5 years. No major leases are expiring in the near term and for most of the anchor tenants, the lease renewals are due after September 2022, which will ensure adequate occupancy going forward.

Strong promoter group – The company's current shareholders are Nexus Malls (Retail platform of Blackstone Real Estate Partners), the world's largest real estate private equity firm with large investments in India and Sumashilp Group. The established track record of the shareholders in real estate sector and diverse portfolio in retail real estate business in India provides comfort. Presence of Nexus Malls is expected to benefit the mall in terms of operational and financial synergies due to large portfolio. The SumaShilp group has track record of completing and leasing commercial office spaces in the micro market which provides an additional comfort.

Presence of structural features such as escrow and DSRA for the LRD (senior debt): The company has maintained a DSRA reserve of Rs. 2.97 crore as on September 2019. The LRD sanction ensures the company will maintain DSRA equivalent to two months principal plus interest obligations. Further, escrow mechanism is in place to ensure transparency in cash flows. The LRD has a covenant restricting utilisation of mall cash flows for repayment of promoter NCD or redemption of preference capital and hence the surplus will be maintained in the company which provides comfort from the credit perspective for the LRD rating. ICRA understands that the call option for the NCD will be exercised only in case of availability of surplus from raising fresh LRD once the IT park is completed and leased out.

Credit challenges

Exposed to project execution risk and occupancy risk of IT park – The company has incurred ~65% of the project cost of the IT park as on August 2019 and the scheduled completion date is March 2020. The company expects the rental revenues to commence starting from September 2019. The remaining project cost is proposed to be funded by undrawn LRD limits. The IT park is exposed to occupancy risk as currently no LOIs have been signed. The repayment towards promoter NCDs and redemption of preference shares would require Rs. 160 crore by December 2021 and the same is expected to be funded by future LRD against the rentals of the IT park. As per terms of the NCD, the NCD redemption will be at face value till December 2021 and any redemption post that would be at an IRR of 15% and the same quantum will be matched for repayment of the preference capital. Though timely completion of the project and ramp up in leasing at adequate rental rates remain important for redemption/repayment of promoter funds, the management has stated that these two payments will only be made once there is adequate cash surplus available with the company. ICRA believes that the demand for office spaces in the micro market is adequate and nearing completion, the project will be able to generate leasing for the IT park.

Exposed to lessee concentration risk: The lessee concentration risk is moderate for the mall as top five tenants contribute ~31% of rental revenue. However, considering strategic location of the mall the top tenants are expected to continue over the medium to long term.

Susceptible to vacancy risk: Though no major tenants have their lease renewal dates falling due in next three years except few office and vanilla stores, any major tenant vacating the property remains a key risk.

Liquidity position: Adequate

The company's liquidity profile is adequate as reflected in unencumbered cash and bank balances of Rs. 1.50 crore and ISRA reserve of Rs. 0.6 crore as on March 31, 2019. The company has maintained DSRA reserve of Rs. 2.97 crore as on September 30, 2019 after refinancing of the earlier facility through a LRD facility. The remaining capex for the IT park is expected to be funded by undrawn line of credit available of ~Rs. 31 crore as well as surplus available in the overdraft facility of ~Rs. 20 crore as on September 30, 2019. CPPL's average monthly debt repayment obligations for FY2020 remain at ~Rs. 3 crore.

Rating sensitivities

Positive triggers – ICRA could upgrade CPPL's rating if the IT park is completed in timely manner and adequate leasing tie-ups are achieved at par rates. Considerable improvement in the cumulative DSCR for total debt on the balance sheet including expected future LRD against the IT park may also be a positive.

Negative triggers – Negative pressure on CPPL's rating could arise if, there are cost overruns or unforeseen delays in the completion of IT park and delay in tie up of leases and resultant LRD sanction. Weakening of cumulative DSCR to below 1.2 times for total debt on the balance sheet including expected future LRD against the IT park could also exert negative pressure on the company's rating.

Analytical approach

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

About the company

Incorporated in 1995, CPPL operates Westend Mall in Aundh in Pune. The Blackstone group, through their Indian retail platform of Nexus Malls, acquired 50% stake in the company in FY2017. Rest 50% stake is held by Pune based SumaShilp Group.

The Westend Mall has a total leasable area of 4.25 lakh square feet (sq. ft) and it opened to the public in the first quarter of FY2017. It has a well-diversified clientele and a healthy occupancy level of ~93% as on September 2019.

CPPL is also currently carrying out the development of an integrated IT park named Westend IT park with a total leasable area of 2.5 lakh sq. ft. The construction of which started in June 2018 and is expected to be completed by March 2020.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	48.9	64.8
PAT (Rs. crore)	-16.3	-12.3
OPBDIT/OI (%)	55.7	62.0
RoCE (%)	2.7	0.1
Total Outside Liabilities/Tangible Net Worth (times)	10.7	18.4
Total Debt/OPBDIT (times)	11.9	9.0
Interest Coverage (times)	1.3	1.8
DSCR	1.2	1.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 9-Dec-2019	Date & Rating 10-October 2019	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	NCD	Long-term	80.00	80.00	[ICRA]BBB - (Stable)	-	-	-	-
2	Term Loan	Long Term	320.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-
3	Fund Based-Overdraft	Long-term	(30.00)*	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-

**Rs. 30 crore interchangeability from Overdraft to Term Loan*

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
INE040W08017	NCD	13-Dec-2016	0%	12-Dec-2026	80.0	[ICRA]BBB- (Stable)
NA	Long-term – Term Loan	22-Aug-2019	-	31-Dec-2032	320.0	[ICRA]A- (Stable)
NA	Long term – fund based - Overdraft	22-Aug-2019	-	31-Dec-2032	(30.0)*	[ICRA]A- (Stable)

**Overdraft of Rs. 30 crore is a sub-limit of term loan of Rs. 320 crore*
Source: CPPL

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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.

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