

## Press Release

### Offbeat Developers Private Limited (ODPL)

24 January, 2017

#### Rating Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs.775.00 Cr
<b>Long Term Rating</b>	SMERA BBB-/Stable (Reaffirmed)
<b>Short Term Rating</b>	SMERA A3 (Reaffirmed)

\*Refer Annexure for details

#### Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BBB-**' (**read as SMERA triple B minus**) and short-term rating of '**SMERA A3**' (**read as SMERA A three**) to the abovementioned bank facilities of Offbeat Developers Private Limited (ODPL). The outlook is '**Stable**'.

Incorporated in 2000, ODPL was promoted by Phoenix Mills Limited (PML). The company is engaged in the construction and leasing of malls and commercial property.

#### List of key rating drivers and their detailed description

##### Strengths:

**Experienced promoters:** Incorporated in 2000, ODPL was promoted by Phoenix Mills Limited (PML) which has nearly two decades of experience in managing large malls. The High Street Phoenix and the Palladium Mall at Lower Parel, Mumbai are flagship properties of the Phoenix Mills Group.

**Stable operating revenues:** ODPL registered operating revenue of Rs.232.05 crore in FY2015-16 (refers to financial year, April 1 to March 31), as against Rs.238.52 crore a year earlier. The overall revenues have remained stable on account of steady cash flows from sale of property (Rs.75.00 crore in FY2016 and Rs.77.25 crore in FY2015). This also includes license fees, rental income and other service charges (Rs.156.99 crore in FY2016 and Rs.161.11 crore in FY2015).

**Timely completion of Phase-II (commercial property -Art Guild House):** ODPL has completed the construction of Art Guild House (AGH) as per schedule (last quarter of FY2015-16). The Art Guild House is built on an area of 0.78 million Square Feet (Mn. Sq. Ft.). The company has sold around 0.38 Mn. Sq. Ft. for total consideration of Rs.320.00 crore and has already leased ~0.13 Mn. Sq. Ft. as on September, 2016.

**Escrow with waterfall mechanism:** The ratings draw comfort from the escrow mechanism through which cash flows from lease rentals are routed and used for payment as per the defined payment waterfall. The company maintains debt service reserve account (DSRA) with the bank in the form of Fixed Deposit. The amount in the DSRA would be utilised only in case of a shortfall in cash flows (operating and support from the sponsors) for meeting debt service requirements from time to time. Any mismatch in cash flows arising out of lower lease rentals are expected to be met through support from parent company i.e. Phoenix Market City Limited.

##### Weaknesses:

**High dependence on funding support from promoter:** ODPL is highly dependent on its parent company Phoenix Market City Limited for funding support. Apart from holding 65.37 per cent equity stake in ODPL, the promoter has also been infusing unsecured loans (for the purpose of renovation and up gradation of mall facilities) which stood at Rs.28.50 crore as on 31 March, 2016 and Rs.81.15 crore as on 31 March, 2015.

Further, any mismatches in cash flows arising out of lower lease rentals are expected to be met through support from parent company.

**Renewal risk associated with the ongoing lease and license agreements:** The company faces renewal risks associated with the lease and license agreements. However, the mall's occupancy is comfortable at around ~87 per cent as on September, 2016 with no major lease terminations as on date.

**Average financial risk profile:** ODPL has sustained its existing financial risk profile with aggressive capital structure as indicated by its gearing levels of around 3.38 times with healthy net worth of ~Rs.277 crore as on 31 March, 2016. The debt protection metrics continue to remain stretched in FY2015-16, with interest coverage ratio (ICR) of 0.79 times and debt service coverage ratio (DSCR) of 0.41 times.

**Analytical approach:** SMERA has considered the standalone business and financial risk profiles of ODPL.

### Applicable Criteria

- Infrastructure Entities: <https://www.smerra.in/criteria-infra.htm>
- Application of Financial Ratios and Adjustments: <https://www.smerra.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smerra.in/criteria-default.htm>

### Outlook: Stable

SMERA believes that ODPL will maintain a stable outlook over the medium term owing to its experienced management and strong brand image of Phoenix Mills. The outlook may be revised to 'Positive' in case the company generates healthy net cash accruals while maintaining a comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' with deterioration in the financial profile on account of large debt-funded capex or higher than expected cash flow mismatches from mall operations or Art Guild House project.

### About the Rated Entity

Incorporated in 2000, ODPL was promoted by Phoenix Mills Limited (PML) which currently holds over 65.37 per cent equity stake in the company. PML has experience of nearly two decades in managing large retail malls. The High Street Phoenix and the Palladium Mall at Lower Parel, Mumbai are flagship properties of the Phoenix Mills Group.

Developed and managed by ODPL, the Phoenix Marketcity Mall (PMC) in Kurla, Mumbai has a leasable area of over 1.1 Million Square Feet (Mn. Sq. Ft.). The mall commenced commercial operations from November, 2011.

ODPL has also completed the construction of commercial building - Art Guild House in the same land parcel which also houses PMC. The Art Guild House is built on total area of 0.78 Million Square Feet (Mn. Sq. Ft.). The company has sold around 0.38 Mn. Sq. Ft. and has already leased around ~0.13 Mn. Sq. Ft. as on September, 2016.

**Status of non-cooperation with previous CRA (if applicable):** Not Applicable

**Any other information:** Not Applicable

**Rating History for the last three years:**

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Term Loan (Lease Rental Discounting)	LT	620.00	SMERA BBB-/Stable (Reaffirmed)	-	-	20 Oct, 2015	SMERA BBB-/Stable (Reaffirmed)	-	-
Term Loan*	LT	150.00	SMERA BBB-/Stable (Reaffirmed)	-	-	20 Oct, 2015	SMERA BBB-/Stable (Assigned)	-	-
Inland Bank Guarantee	ST	05.00	SMERA A3 (Reaffirmed)	-	-	20 Oct, 15	SMERA A3 (Assigned)	-	-
Term Loan (Lease Rental Discounting)	-	-	-	-	-	02-Apr-2015	SMERA BBB-/Stable (Assigned)	-	-

\* Overdraft of Rs.25.00 crore and Letter of Credit of Rs.5.00 crore - sub limit within term loan.

**\*Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan (Lease Rental Discounting)	N.A	N.A	December, 2024	620.00	SMERA BBB-/Stable (Reaffirmed)
Term Loan*	N.A	N.A	September, 2019	150.00	SMERA BBB-/Stable (Reaffirmed)
Inland Bank Guarantee	N.A	N.A	N.A.	05.00	SMERA A3 (Reaffirmed)

\* Overdraft of Rs.25.00 crore and Letter of Credit of Rs.5.00 crore - sub limit within term loan.

**Note on complexity levels of the rated instrument:**

<https://www.smera.in/criteria-complexity-levels.htm>

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**ABOUT SMERA**

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