

Press Release

Offbeat Developers Private Limited (ODPL)

22 September, 2017



Rating Upgraded and Withdrawn

Total Bank Facilities Rated	Rs. 800.00 Cr (Enhanced from Rs. 775.00 Cr)
Long Term Rating	SMERA BBB/Stable (Upgraded)

Rating Rationale

SMERA has upgraded the long term rating of '**SMERA BBB' (read as SMERA triple B)** from 'SMERA BBB-' (read as SMERA triple B minus) on the Rs.800.00 crore bank facilities (enhanced from Rs. 775.00 crore) of Offbeat Developers Private Limited (ODPL). SMERA has also withdrawn the short term rating of '**SMERA A3' (read as SMERA A three)** on the Rs. 5.00 crore facilities. The outlook is '**Stable**'.

Offbeat Developers Private Limited (ODPL) was promoted by Phoenix Mills Limited (PML). The latter holds 83.59 per cent equity stake in ODPL as on 31 March, 2017. Developed and managed by ODPL, the Phoenix Marketcity Mall (PMC) in Kurla, Mumbai has a leasable area of over 1.14 million square feet (Mn. Sq. Ft.). The mall commenced commercial operations from November, 2011. ODPL has also completed the construction of Art Guild House, a commercial building in the same land parcel which houses PMC. The Art Guild House was constructed on a total area of 0.78 mn. sq.ft.

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.

Sound asset quality: PMC is one of the largest malls in Mumbai with occupancy rate of 92 per cent as on August 2017. The mall has 310 stores, of which 291 are occupied as on August 2017. The trading density (revenue generated for a given area of sales space, presented as a monetary value per square feet.) increased to Rs.1123.00 per square feet during April to August 2017 from Rs. 950.00 per square feet in FY2015-16. The average footfall rose to 15.10 lakh for FY2016-17 from 14.50 lakh for FY2015-16 with mega brands setting up shop. The property has a diverse mix of retail brands and includes nine marquee anchor tenants. The top 10 brands in terms of area occupied include Zara, Hamleys, Marks and Spencers, Reliance Trends which are also anchor clients.

The second, is a retail property. Out of the total area of 7,97,000 square feet, total leasable area is 4,18,990 square feet out of which 58.33 per cent is leased as on August 2017 as compared to 41.74 per cent in March 2017 and 30.17 per cent in March 2016. The balance area of 3,78,010 square feet

has been sold. The top 10 clients based on area leased/occupied include Nivea India Private Limited, DHR Holdings India Private Limited, Hungama Digital Media Entertainment Private Limited.

SMERA believes that the company will be able to maintain healthy occupancy considering the popular brands in the mall and favourable location of PMC and AGH.

Stable operating revenues: ODPL registered operating revenue of Rs.240.45 crore in FY2016-17 (refers to financial year, April 1 to March 31), as against Rs.232.05 crore a year earlier. The overall revenues have remained stable on account of steady cash flows from sale of property which stood at Rs.78.76 crore for FY2016-17 and Rs. 75.06 crore in the previous year. Sale of services includes license fees, rental income and other service charges of Rs.161.03 crore for FY2016-17 and Rs.156.99 crore in the previous year.

SMERA believes that ODPL will continue to register stable revenue growth on the back of stable lease rentals from PMC and AGH.

Maintenance of Debt-service reserve account (DSRA): As per the loan agreement, ODPL needs to maintain a sum representing three months interest or Rs.20.00 crore in a Debt Service Reserve Account (DSRA). The company maintains DSRA account in the form of a Fixed Deposit to 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. The company refinanced its Lease Rental Discounting Loan (LRD) of Rs. 770.00 crore (outstanding as on 31 March, 2017) at 10.75 per cent with LRD of Rs. 800.00 crore and a door-to-door tenor of 12 years at a lower interest rate of 8.75 per cent in July, 2017. The reduction in interest rate will reduce the finance cost of ODPL, thereby strengthening the overall financial risk profile of the company.

Weaknesses

Dependence on funding support from the promoter: ODPL is dependent on its parent company Phoenix Market City Limited (PML) for funding support. Apart from holding 83.59 per cent equity stake in ODPL as on 31 March, 2017, the promoter has also been infusing unsecured loans (for the purpose of renovation and upgradation of mall facilities) of Rs.20.00 crore as on 31 March, 2017 and Rs.28.50 crore as on 31 March, 2016. Further, any mismatch in cash flows arising out of lower lease rentals are expected to be met through support from the parent company. However, the increasing occupancy in PMC and AGH and timely escalation in lease rentals will lead to higher cashflows and lower dependence on unsecured loans from promoters. As on 31 March, 2017, unsecured loans from Island Star Mall Developers Private Limited (ISMDPL) stood at Rs. 134.33 crore and ODPL reached a settlement - out of the original amount of Rs.134.33 crore, ISMDPL waived off Rs. 65.60 crore (extra ordinary income in FY2016-17) with the remaining to be paid by September 2017.

Renewal risk associated with the ongoing leave and license agreements: The company faces renewal risks associated with the leave and license agreements. However, the mall's occupancy is comfortable at around ~92 per cent as on August, 2017 (from 90 per cent in March 2017) with no major lease terminations as on date.

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

Applicable Criteria

- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.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, higher than expected cash flow mismatches from mall operations or the Art Guild House project.

About the Rated Entity

For FY2016-17, ODPL reported profit after tax (PAT) of Rs. 32.28 crore on operating income of Rs.240.45 crore compared with net loss of Rs. 39.46 crore on operating income of Rs. 232.05 crore for FY2015-16. The net worth stood at Rs. 308.18 crore as on 31 March, 2017 as against Rs. 277.13 crore as on 31 March, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24 Jan, 2017	Term loans (Lease Rental Discounting)	Long term	620.00	SMERA BBB-/Stable (Reaffirmed)
	Term loan*	Long term	150.00	SMERA BBB-/Stable (Reaffirmed)
	Inland Bank Guarantee	Short term	5.00	SMERA A3 (Reaffirmed)
20 Oct, 2015	Term loans (Lease Rental Discounting)	Long term	620.00	SMERA BBB-/Stable (Reaffirmed)
	Term loan*	Long term	150.00	SMERA BBB-/Stable (Assigned)
	Inland Bank Guarantee	Short term	5.00	SMERA A3 (Assigned)
02 Apr, 2015	Term loans (Lease Rental Discounting)	Long term	620.00	SMERA BBB-/Stable (Assigned)

**Overdraft of Rs. 25.00 crore and letter of credit of Rs. 5.00 crore – sublimit within the 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
Term Loan I	NA	NA	March 2028	500.00	SMERA BBB/Stable (Upgraded)
Term Loan II	NA	NA	March 2028	300.00	SMERA BBB/Stable (Upgraded)
Inland Bank Guarantee	NA	NA	NA	5.00	SMERA A3 (Withdrawn)

**Overdraft of Rs. 25.00 crore and letter of credit of Rs. 5.00 crore – sublimit within the term loan*

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in Hina Gupta, Senior Rating Analyst, Tel: 022-67141111 Email: hina.gupta@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.