Press Release

Offbeat Developers Private Limited (ODPL)

7 August, 2018

Rating Upgraded

Total Bank Facilities Rated*	Rs.800.00 Cr
Long Term Rating	ACUITE A/Stable (Upgrade)

**Refer Annexure for details*

Rating Rationale

ACUITE has upgraded its long-term rating on the Rs. 800.00 Cr bank facilities of Offbeat Developers Private Limited (ODPL; part of the Phoenix Mills group) to **'ACUITE A' (read as ACUITE A)** from **'ACUITE BBB' (read as ACUITE triple B)**. The outlook is **'Stable'.** ODPL owns and operates Phoenix Market City Mall (PMC), Kurla, Mumbai.

The rating revision reflects expectation of continued strong business, operational, and financial support derived from its parent, The Phoenix Mills Limited (PML). PML has steadily increased its stake in the company over the years from 24 percent as on 31March 2010 and is now a wholly owned subsidiary. The promoter group has been extending financial support to ODPL on a regular basis. The rating also factors in strong occupancy levels and steady increase in rental income. This is supported by the improving trend in the trading density and consumption levels at the mall. The performance of the commercial property has also improved significantly over the past one year.

Acuité believes that ODPL will sustain its business risk profile on the back of diversified lessee base, favorable location and demand conditions along with established track record in the industry.

Analytical approach

Acuité has taken a standalone view on the company to evaluate the credit profile of ODPL and subsequently factored in the benefits derived from the strong business linkages and financial support from the parent company, PML.

Earlier, Acuité had taken a standalone view on the company to evaluate the credit profile of ODPL.

Acuité has treated optionally fully convertible debentures (OFCDs) of Rs.60 Cr as equity as it is funded by parent company i.e. PML with low interest rates and are redeemable on or before June 2027 indicating long tenure.

List of key rating drivers and their detailed description

Strengths

Expectation of strong support from the parent

PML is a leading retail mall developer and operator in India with an established track record. It owns marquee large format retail mall assets (of 10 lakh each totaling 60 lakh square feet (sq. ft.)) in prime locations across cities such as Mumbai, Bangalore, Chennai and Pune. Most of its assets have reported steady growth in operating performance over the years supported by good trading density, and healthy occupancy and consumption at the malls. The group is looking to expand its retail mall assets through its majority owned company, Island Star Mall

Developers Private Limited (ISMDPL), in association with Canada Pension Plan Investment Board (CPPIB). The group has a diversified business risk profile through its retail led, mixed use development philosophy. In addition to lease and revenue share income from mall assets, the group also derives revenues from office, hospitality and real estate business segments as well.

ODPL derives significant business, operational and financial support from PML. This is reflected in the healthy and improving occupancy at the mall and the steady growth in rental income. PML has steadily increased its stake in the company over the years and now holds 100 percent stake. PML, directly or through its group companies have regularly provided funding support to ODPL till date and is expected to continue to provide such support in future as well, should the need arise. ODPL has received regular funding support from promoter group in various forms including funding of optionally fully convertible debentures of Rs. 60 Crore in FY 2018.

ODPL also benefits from PML's parentage in terms of competitive borrowing costs and attractive funding terms.

Acuité believes that ODPL will benefit from established track record and continued support from the parent.

Healthy cash flows supported by comfortable occupancy and diversified clientele across the mall and commercial property

PMC, Kurla is one of the largest malls in Mumbai (with a leasable area of over 11.44 lakh sq. ft.) with occupancy of 91 per cent as on 31st March 2018. The mall has over 300 stores which are occupied by a diverse mix of established retail domestic and international brands. The top 10 brands in terms of area occupied include PVR, Lifestyle Zara, Hamleys, H &M, Marks and Spencers, Reliance Mart which are anchor clients. The mall has low clientele concentration given the diverse profile of tenants across multiple formats including fashion, electronics, hypermarkets and supermarkets, food and beverages, entertainment etc. The business risk profile is also supported by long tenure of the leases with built-in revenue escalations and lock-in periods. Many of the existing tenants have witnessed completion of the lock-in period and revenue escalation cycles with no major lease terminations, thus providing high stability to the business risk profile.

The trading density (revenue generated for a given area of sales space) increased to Rs.1044 per sq. ft. during FY2018 from Rs. 942.00 per sq ft in FY2017. The average consumption increased to Rs. 68 Cr in FY2018 from Rs. 58 Cr. in previous year, despite average footfall declining to 12.50 lakh for FY2018 from 14.20 lakh in FY2017. Given the strong operating performance, the mall also earns around 10% of total lease rentals in the form of revenue share income from the tenants, which is expected to increase steadily over the medium term.

ODPL also owns a commercial property, Art Guild House (AGH).Out of the total area of ~8 lakh sq ft in AGH, ODPL's share of the leasable area is 4 lakh sq ft and around 77 per cent is leased as on 31st March 2018 as compared to 41.74 per cent as on 31st March 2017. The balance area of ~4 lakh square feet has been sold. The top 10 clients based on area leased include Nivea India Private Limited, DHR Holdings India Private Limited, Hungama Digital Media Entertainment Private Limited. The strong linkages with PML will ensure that the improvement in the occupancy at Art Guild House is sustained over the medium term along with steady increase in rentals.

Acuité believes that ODPL will maintain comfortable business risk profile supported by the diversified clientele, healthy occupancy and favorable location of PMC and AGH.

Adequate debt servicing ability

ODPL has adequate debt servicing ability underpinned by the steady operating income coupled with the ballooning nature of principal repayments. While the repayments increase significantly towards the end of the loan tenure, ODPL is expected to refinance the loan well in time to ensure that the timely debt servicing, should the need arise.

Additionally, ODPL maintains a sum representing Rs.20.00 crore in a debt service reserve account (DSRA) to be utilised only in case of a shortfall in cash flows for meeting debt servicing requirements.

The company refinanced its lease rental discounting Loan (LRD) of Rs. 770.00 crore (outstanding as on 31st 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 June 2017. The reduction in interest rate has reduced the finance cost, thereby strengthening the overall financial risk profile of ODPL.

Weakness

Susceptibility to lessee' underperformance along with occupancy and renewal risk

ODPL primarily generates cash flows from leave and license agreements with its tenants at both the mall and commercial property. The company's ability to meet its repayment obligations will be dependent on the continued and timely flow of rentals under the leave and license arrangement. The occurrence of events such as delays in receipt of rentals, or early exits/renegotiation by lessee due to the latter's lower than expected business performance may result in disruption of cash flow streams, thereby affecting ODPL's debt servicing ability.

Nearly half of the leaseable area of PMC, Kurla is coming up for renewal over the next three years - 11% in FY 2019, 8% in FY 2020 and 32% in FY 2021. While PML's established position and track record is expected to result in renewals/fresh leasing at better terms with minimal vacancy, any significant renegotiations by the lessees can adversely impact the cash flows from the mall, especially given the large renewals due in FY 2021. Further, any significant increase in competition from any other large format mall in a highly competitive market like Mumbai may result in the company facing occupancy and renewal risks.

Outlook: Stable

Acuité believes that ODPL will maintain a stable outlook over the medium term underpinned by the continued strong support from PML, and comfortable business risk profile. The outlook may be revised to 'Positive' if the company generates healthy net cash accruals while maintaining a comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' if there is deterioration in the financial risk profile because of sharp increase in debt or higher than expected cash flow mismatches from operations.

About the rated entity

Incorporated in 2000, ODPL is a wholly owned subsidiary of PML. Developed and managed by ODPL, the Phoenix Marketcity Mall (PMC) in Kurla, Mumbai has a leasable area of over 11 lakh Square Feet (Sq. Ft.). The mall commenced commercial operations from November, 2011.

ODPL has also developed a commercial building - Art Guild House on the same land parcel which houses PMC. The Art Guild House is built on total area of ~8 Square Feet (Sq. Ft.). The company has sold around ~4 lakh Sq. Ft. and has already leased around ~3.2 lakh Sq. Ft. as on March 2018 of the total leasable area of ~4 lakh Sq. ft.

About the parent company-PML

PML is the flagship company of the Phoenix Mills group. 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.

About the Rated Entity - Key Financials

	Unit	FY18 (Prov.)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	213.51	240.45	232.05
EBITDA	Rs. Cr.	105.16	93.51	87.80
PAT	Rs. Cr.	(1.44)	32.28	(39.46)
EBITDA Margin	(%)	49.25	38.89	37.84
PAT Margin	(%)	(0.67)	13.43	(17.00)
ROCE	(%)	6.87	12.31	6.05
Total Debt/Tangible Net Worth	Times	2.01	2.76	3.38
PBDIT/Interest	Times	1.44	1.78	0.79
Total Debt/PBDIT	Times	7.04	5.23	10.40
Gross Current Assets (Days)	Days	37	460	717

About Phoenix Mills Limited- Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	1905.64	1829.92	1780.71
EBITDA	Rs. Cr.	970.03	860.92	791.66
PAT	Rs. Cr.	301.10	173.56	81.97
EBITDA Margin	(%)	50.90	47.05	44.46
PAT Margin	(%)	15.80	9.48	4.60
ROCE	(%)	11.13	10.70	19.64
Total Debt/Tangible Net Worth	Times	1.15	1.61	1.68
PBDIT/Interest	Times	2.49	2.14	1.76
Total Debt/PBDIT	Times	4.01	4.58	5.02
Gross Current Assets (Days)	Days	256	259	341

*PML's consolidated financials include reported consolidated financials and financials of Classic Mall Company Development Private Limited.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Infrastructure Entities: https://www.acuite.in/criteria-infra.htm
- Financial Ratios and Adjustments: https://www.acuite.in/view-rating-criteria-20.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-17.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
22-Sep-17	Term Loan-I*	Long term	500.00	ACUITE BBB/Stable (Upgrade)
	Term Loan-II	Long term	300.00	ACUITE BBB/Stable (Upgrade)
	Inland Bank Guarantee	Short Term	5.00	ACUITE A3 (Withdrawn)
24-Jan-17	Term Loan (Lease Rental Discounting)	Long term	620.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan*	Long term	150.00	ACUITE BBB-/Stable (Reaffirmed)
	Inland Bank Guarantee	Short Term	5.00	ACUITE A3 (Reaffirmed)
20-Oct-15	Term Loan (Lease Rental Discounting)	Long term	620.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan*	Long term	150.00	ACUITE BBB-/Stable (Assigned)
	Inland Bank Guarantee	Short Term	5.00	ACUITE A3 (Assigned)
2-April -15	Term Loan (Lease Rental Discounting)	Long term	620	ACUITE BBB-/Stable (Assigned)

***Overdraft of Rs. 150.00 crore and Letter of Credit of Rs. 10.00 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-I	Not Applicable	Not Applicable	Not Applicable	500.00#	ACUITE A/Stable (Upgrade)
Term Loan-II	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A/Stable (Upgrade)

#Overdraft of Rs. 150 crore and import letter of credit-secured and unsecured of Rs. 10.00 crore sublimit within the term loan.

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.