

Press Release

Ornate Spaces Private Limited (OSPL)

25 January, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 550.00 Cr.
Long Term Rating	SMERA Provisional BBB- (SO)/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned a long term rating of '**SMERA Provisional BBB- SO**' (**read as SMERA provisional triple B minus structured obligation**) to the above mentioned bank facilities of Ornate Spaces Private Limited (OSPL). The outlook is '**Stable**'.

The rating on the Rs. 550.00 crore Proposed Corporate Term Loan is provisional and the final rating is subject to the finalisation and vetting of the following documents by SMERA:

1. Shortfall undertaking from Shapoorji Pallonji and Company Private Limited
2. Final Sanction Letter of PNB Housing Finance Limited
3. Legal Due Diligence Report
4. Bank Confirmation Letter for creation of Debt Service Reserve Account (DSRA)

The provisional rating is valid for 90 days. SMERA reserves the right to withdraw/modify/alter the rating prior to 90 days in the case of occurrence of any material credit event.

Ornate Spaces Private Limited (OSPL) is a Mumbai based company incorporated in 1990. The company is promoted by Mr. Vijay Machindar and Mrs. Komal Machindar. Besides the promoters, Mr. Shashi Kumar is also on the Board of directors. OSPL is engaged in development of commercial and residential projects.

OSPL has one ongoing project currently i.e. The Grove Towers (GT). It is located in Lokhandwala, Andheri (West) Mumbai. GT is a redevelopment project being developed on a plot owned by MHADA and is allotted to UTI Employees Saisamrudhi Co-op Housing Society. The project comprises of two towers with a total planned built-up area of 13.72 lakh square feet. The total saleable area of the project is 7.17 lakh square feet. It will have total of 536 units out of which 152 units will be allotted to the UTI Society and the balance 384 units will be for market sale by OSPL.

Key rating drivers

Strengths

Good locational advantage of the project

The project, Grove Towers located in Lokhandwala, Andheri (West), Mumbai is in close proximity to prominent residential hubs of Lokhandwala Complex, Oshiwara and Versova. The project has easy access to basic amenities in and around the vicinity such as Hospitals, Schools, Colleges, Airport, Railway and Metro Stations which will help in attracting high net worth individuals to the project. The proposed pricing in the project is also fairly consistent with the prevailing property prices in that market which is characterised by limited inventory of residential assets.

Support from Shapoorji Pallonji and Company Private Limited (SPCPL)

SPCPL who has been appointed as the project manager for project Construction & Development, Branding, Sales and Marketing has an established presence in the real estate development projects. SPCPL will further be providing the shortfall undertaking for the repayment of the corporate term loan. Association of SPCPL as a project manager and their marketing support should help in attracting the right customers to the project which will help to mitigate the offtake risk to an extent.

Weaknesses

Initial stages of project completion

The project initially started in 2012 got delayed due to the litigation issues. After appointing Shapoorji Pallonji and Company Private Limited (SPCPL) as a Construction & Development partner in 2015, the construction of the project started in January 2017 and expected to be completed by December 2023. The project is expected to get launched by May 2018. As on 30 September 2017, the firm has incurred cost of Rs. 310.15 crore, forming ~22% of envisaged project cost (Construction+ overheads) of Rs. 1415.20 crore. Currently the excavation work for the both the buildings is in process.

Inherent cyclicity in Real Estate Sector

The real estate industry in India is highly fragmented with most of the real estate developers, having a city-specific or region specific presence. The risks associated with real estate industry are – cyclical nature of business (drop in property prices), interest rate risk etc. can affect the operations of the firm.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of OSPL to arrive at the rating.

Outlook – Stable

SMERA believes OSPL will maintain its business risk profile in the medium term on the back of favourable project characteristics and expected support from the Shapoorji Pallonji Group. The outlook may be revised to 'Positive' if the company generates steady cash flows from higher than expected customer sales advances. Conversely, the outlook may be revised to 'Negative' in case of stretch in the company's liquidity position on account of delays in project execution or slower collection of customer advances.

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

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

None

Rating History (Upto last three years)

Not Applicable

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 loans	Not Applicable	Not Applicable	Not Applicable	550.00	SMERA Provisional BBB-(SO)/ Stable

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ABOUT SMERA

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