

Incredible Realcon Private Limited

October 12, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Instruments (Non- Convertible Debentures)	600	CARE D [Single D]	Revised from CARE B (SO); Negative [Single B (Structured Obligation)]; Outlook: Negative]
Total Facilities	600 (Rs. Six hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating of the NCDs of Incredible Realcon Private Limited (IRPL) was earlier based on the credit enhancement in the form of an unconditional and irrevocable corporate guarantee for debt servicing provided by Ireo Private Limited (IPL).

The revision in the rating of IRPL takes into account the delays in payment of interest on the NCD issue and weakening of the credit profile of the guarantor (IPL) as reflected in its stretched liquidity. With the significant deterioration in the financial profile of IPL, it is unlikely that it will be able to honour its obligations in a timely manner, even if the corporate guarantee provided by IPL for IRPL's NCD Issue is invoked. IRPL has delayed in interest payment for the rated NCD on the due date on account of insufficient cash flow however, as per the interaction with debenture trustee and the management there has not been any invocation of the corporate guarantee from IPL as yet.

With the continued delay in the sale of development rights and lower than envisaged sales in the projects of IPL, its cash flow position has significantly deteriorated which has been further accentuated by its elevated debt levels, geographical concentration risk with all projects in Gurgaon region and slowdown in the real estate industry. The rating also takes cognizance of criminal case filed against the company in India besides the arbitration under process in New York and Mauritius.

Detailed description of the key rating drivers

Key rating Weaknesses

Delay in Debt Servicing by IRPL

The NCD issue of IRPL is backed by the corporate guarantee from IPL and dependent on IPL's cash flows for debt servicing as there are no business operations under IRPL. The ongoing sluggishness in the real estate sector has adversely affected the liquidity of many developers including IPL. With the significant deterioration in the financial profile of IPL, it is unlikely that it will be able to honour its obligation, even if the corporate guarantee provided by IPL for IRPL's NCD Issue is invoked. IRPL has delayed in interest payment for the rated NCD on the due date on account of insufficient cash flow however, as per the interaction with debenture trustee and the management there has not been any invocation of the corporate guarantee from IPL as yet.

Subdued industry scenario: The real estate sector is moving towards a more rational regime where developers, having learnt from their mistakes, now focus on project execution and delivery. The real estate market in Delhi-NCR has seen slow-down in the sales in past few quarters. Competitive pricing, increased transparency, speedy approvals process, clear land titles, improved delivery and project execution are expected to support growth of the real estate sector. While the sector continues to remain troubled with issues of high unsold inventory, delayed delivery of projects and financial stress on developers, the only segment that showed some signs of a rebound was the affordable housing category in the peripheries of the major markets. The broader market opinion is that while the long term story for residential market remains strong; the short term is expected to be sluggish.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.

Arbitration Proceedings

A criminal case has been filed in India besides arbitration proceedings in New York and Mauritius with respect of siphoning of funds by Ireo's top management. The matter is currently subjudice and the company has denied any wrong doing in this regard in their reply to the Economic Offences Wing. Any adverse outcome of the same will further weaken the credit profile of the company.

Key rating strengths

Experienced promoters: IPL is part of the IREO Group a private equity fund with assets of USD 1.7 billion invested in India. IPL is managed by professionals with experience in the real estate industry. The overall operations of the company are managed by team of professionals which includes Mr. Anupam Nagalia (Chief Operating Officer), who is a qualified Chartered Accountant and Company Secretary. Before joining IGRPL, he has worked with Vatika Group. Mr. Jai Bharat Aggarwal (Director Finance) is responsible for making financial decisions for the company. IREO group has established its track-record of delivery with completion of two group housing projects in group company Ireo Private Limited having more than 27.59 lakh square feet (lsf) of saleable area in Gurgaon region. Furthermore, IREO Group has also handed over 22 villas, 17 floors and 205 plots in township project at Ludhiana developed under group company Ireo Waterfront Private Limited and handed over 200 plots in Mohali developed under group company Puma Realtors Private Limited.

Analytical Approach: Standalone. The rating of the NCDs of Incredible Realcon Private Limited (IRPL) were earlier based on the credit enhancement in the form of an unconditional and irrevocable corporate guarantee for debt servicing provided by Ireo Private Limited (IPL), however, with the deterioration in the credit profile of IPL, IRPL has been analyzed on standalone basis..

Applicable Criteria

[CARE's criteria on assigning outlook to credit ratings](#)

[CARE's policy on Default recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

About the company

Incredible Realcon Private Limited (IRPL) incorporated in 2013 is part of Ireo Group (IREO) and is a SPV being promoted for business of promotion, development and construction of real estate. However presently there is no ongoing project in IRPL.

About the Guarantor

Ireo Private Limited (IPL), incorporated in 2004, is part of the IREO group (IREO), a real estate private equity fund with investable assets of USD 1.7 billion. IREO has 4,500 acres of land bank in India which includes several premium projects at Gurgaon, Ludhiana, Mohali & Chennai. Due to different locations of the projects, each project is being developed in different SPVs. IPL is one of the SPVs which is being promoted by IREO Investment Holding III Ltd. registered in Mauritius. IPL is currently developing 4 projects (2 group housing, 1 commercial and 1 plotted) with around 38.61 lsf area in Gurgaon and has already delivered two group housing projects with 27.59 lakh square feet (lsf) area in Gurgaon region.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1043.27	397.16
PBILDT	184.49	-11.58
PAT	-48.95	-218.31
Overall gearing (times)	2.95	4.00
Interest coverage (times)	0.75	-0.04

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	October 10, 2017	13.9%	28/09/2022	600.00	CARE D

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	600.00	CARE D	CARE B (SO); Negative (04-Jul-2018)	1)CARE BB+ (SO); Negative (30-Mar-18) 2)CARE BBB- (SO); Stable (17-Oct-17) 3)Provisional CARE BBB- (SO); Stable (12-May-17)	-	-

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