

Classic Mall Development Company Limited

April 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	215.87 (Reduced from 235.87)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Total Bank Facilities	215.87 (Rs. Two Hundred Fifteen Crore and Eighty-Seven Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of Classic Mall Development Company Private Limited (CMDCL) continues to take cognizance of the company benefitting from being part of the Phoenix Mills Group (The Phoenix Mills Limited owns 50% share) having a long track record coupled with extensive experience/expertise of the promoters in the commercial real estate business of developing and operating malls. The rating also continues to factor in favourable location of the mall, stable track record of the operations characterized by higher occupancy levels, reputed and diversified tenant profile and high consumption level resulting into steady cash flows and moderate capital structure. The rating also builds in presence of exclusive charge on receivables from the mall operations (including hotel) as well as having escrow mechanism with Debt Service Reserve Account (DSRA) for debt servicing obligations.

The ratings are constrained due to susceptibility of lease rentals and lease rollovers to any slowdown in the economic environment and upcoming expiry of lease agreements. However, the risk is mitigated since majority of the tenants have continued and lease renewals are also being done on a timely basis. The rating also factors in high exposure in group companies albeit moderate comfort derived from strong liquidity available at the group level i.e. PML (Phoenix Mills Limited) to support its group companies in case of any exigencies.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in occupancy level to 95% and above leading to healthy cash accruals on a sustainable basis
- Improvement in overall gearing below 0.5x
- Improvement in overall monthly collections in achieving pre-covid levels

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any un-envisaged debt funded capex resulting in deterioration of Overall gearing above 1.50x
- Decline in PBILDT margin below 55% on a sustained basis.

Outlook: Stable

CARE has revised outlook of the company from Negative to Stable, due to improvement in monthly rentals, consumption level, trading density and sustained occupancy levels of the mall in 9M FY22. In 9M FY22, the mall has recorded a consumption and trading density of Rs. 584.90 crore and Rs. 1,021 per sq ft per month respectively (vis-à-vis Rs. 417 crore and Rs. 246.5 per sqft per month respectively in FY21) which indicates positive trajectory of mall operations.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoter Group

Classic Mall Development Company Limited (CMDCL) belongs to the Phoenix Group (Phoenix Mills Ltd being the flagship company having 50% equity stake) a market leader and owner of prime malls in India. The Phoenix Mills group is the largest player in the Indian retail mall segment and has a portfolio of 59 lakh sq. ft of eight well-established retail mall assets across major cities in the country and a recently launched mall with 9.5 lakh sq. ft of leasable area. It also has an office portfolio of 13.7 lakh sq. ft in Mumbai and Pune (which shall be increased to 20.24 lakh sq. ft post completion of Tower 2 and Tower 3 in Pune), two operational hotels (one each in Mumbai and Agra), and residential real estate of 37 lakh sq. ft in Bengaluru and Chennai.

The Phoenix Mills Limited on February 19, 2022 announced the execution of non-binding term sheet to acquire balance 50% equity stake in Classic Mall Development Company Limited from Crest Ventures Limited and Escort Developers Private Limited (a 100% subsidiary of Crest Ventures Limited). PML will pay Rs. 918 crore to acquire the 50% stake held by Crest Ventures and Escorts Developers. This will make CMDCL, a wholly owned subsidiary (100% stake) of The Phoenix Mill Limited. The Company will fund the acquisition by way of internal accruals and cash on balance sheet and complete this transaction either on its own

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

and/or through one of its affiliates. Subject to completion of due diligence, certain condition precedents and necessary approvals from the board, the transaction is expected to close by Q1 FY23. CMDCL thus stands to benefit from the strong repute and the expertise of the promoter group primarily in developing and operating of retail malls.

Favourable location of the mall

Phoenix Market City (the mall) is located at Velachery Road, Chennai (South Business District, SBD) within the proximity of the airport at ~10km, ~5km from residential area of Tambaram and ~3-4 km from state highway (Old Mahabalipuram Road). The mall location is favourable with presence of large residential areas such as Adambakkam, Guindy and Velachery etc.; furthermore the mall is situated close to institutions like IIT Chennai and Guru Nanak College. The mall also benefits from development of IT/ITES Park in and around the Old Mahabalipuram Road; major IT companies such as TCS, AllSec Technologies and Sutherland Global have set up offices in the Velachery region.

Stable track record with higher occupancy levels, reputed and diversified tenants

Phoenix Market City in Chennai is the largest mall in terms of area and had an average occupancy of more than 90% in past five years. During FY20, the mall recorded an aggregate footfall of 6.91 lakh per month with occupancy over 95%. As per latest leasing details till January 2022, the occupancy level stood at 93% of the total leasable area, the slight decline in occupancy was owing to vacancy and lease expiry of property by few tenants as the footfalls are sparse (3.35 lakh per month during 9M FY22) and it has impacted the overall business for the tenants.

The diverse mix of top 10 clients (Anchor/ Mini-anchor/ Multiplexes/ Hypermarket/ Fun and Entertainment) consists of ~28% of the total leasable area. The mall currently has a total of 256 tenants as on date which includes reputed names such as Lifestyle, Zara, Pantaloons, Marks & Spencer, Reliance Trends, Reliance Digital, MAX, which are also the anchor tenants. The mall offers diverse mix of brands for shopping, entertainment and dining having local and global niche brands, thereby attracting a large base of customers/population. This has helped the company to generate steady and consistent cash flows from the mall.

Moderate capital structure coupled with adequate debt coverage indicators

The overall gearing level improved marginally from 1.14x as on March 31, 2020 to 1.09x as on March 31, 2021 on the back of profits being retained into the business resulting into increase in the size of the net worth. However, the PBILDT to interest coverage ratio declined from 2.65x in FY20 to 1.85x in FY21 on account of decrease in operating income which was affected due to pandemic.

The total debt outstanding has a loan-to-value ratio of 38% (P.Y. 39.37%) thereby indicating the financial flexibility the company has in order to raise funds in case of any exigencies.

Presence of Escrow mechanism with exclusive charge on receivables from mall operations along with debt service reserve account (DSRA) in place

The lease rental discounting (LRD) facility has enabled setting up of an escrow account; wherein all the receivables (from leasing sale, transfer, parking, signage, promotion, advertising, revenue sharing arrangements, CAM, utility or any other arrangements) will be deposited. The inflows would then be appropriated towards a) maintaining the DSRA amount at the requisite level b) servicing of monthly obligations and all other dues including penal charges if any c) statutory charges or authority payments and other operating expenses. Any surplus post appropriation as above shall be transferred to company's current account. Secondly, 75% of the inflows from the sale/transfer of properties offered as security will be adjusted towards repayment of the dues under the facility. Any surplus post appropriation as above shall be transferred to company's current account. Presence of DSRA shall provide cushion to some extent, for meeting the debt servicing obligations in case there is a shortfall in rent collection.

The bank will have an exclusive charge by way of escrow mechanism on the receivables from the mall (including hotel). As part of the security, the bank would have a first pari-passu charge with the LRD term loan (of Rs.250 crore) on non-disposable undertaking of 100% shares of the CMDCL, retail mortgage of the mall's land and building (including hotel) and proportionate share of car parking.

Key Rating Weaknesses

High exposure in group companies in the form of advances with no fixed repayment obligations

The company has extended ICDs (Inter-corporate deposits) to group companies which stood at Rs.495.75 crore as on March 31, 2021 (Rs.489.25 crore as on March 31, 2020) against which the company receives interest income. As per the management, these inter-corporate deposits are callable on demand as and when required. As per the management, these inter-corporate deposits are callable on demand as and when required. In CMDCL, the loan can be raised at low rate of interest rather than leveraging other entities with high rate. Hence, the company raises funds at low cost and then transfer to promoters by way of ICDs. However, the risk is moderated to some extent on account of strong liquidity available at the group level i.e. PML (Phoenix Mills Limited) to support its group companies in case of any exigencies. From a liquidity point of view, it is to be noted that the company does not require any further funds to service its debt obligations or operational obligations.

Susceptibility of lease rentals and lease rollovers to any slowdown in the economic environment and upcoming expiry of lease agreements

CMDCL has entered into lease agreements with reputed domestic as well as international brands. In FY22 and FY23, the company is likely to witness contract expiry of ~20% and 31% of the total leased area respectively. As per management, they expect to retain most of these clients and renew their agreements, some of these agreements have already been renewed.

Further, the agreements are for a longer tenure ranging from 3 years to 9 years and a lock-in period of 6 months to 6 years from the date of signing the agreement. Nevertheless, given the mall is the largest in Chennai and is at a strategic location, most of the existing major tenants have continued to occupy their retail spaces post the expiry of their initial lock-in period and have also completed multiple rounds of escalations. Thus, the roll over risk though appears to be low yet the company's revenues remain susceptible to sudden exit of large tenants and the subsequent lag in leasing out the vacant area owing to economic slowdown leading to potential stress on cash flow. Furthermore, the lease rentals can also be influenced by consumer spending and macro-economic conditions; however in such scenario comfort can be drawn presence of the DSRA which is equivalent to 3 months EMI of the LRD loan.

Liquidity: Adequate

The company has working capital limits (OD Facility) of Rs.25 crore and as per banker its average utilization over the past 12 months has been around 60%. As per management, current utilization as in March 2022 is negligible. Company also maintains 3 months' interest and principal with the lender as DSRA balance which is around Rs. 30-32 crore. The Loan-to-value is 38% which gives ample cushion for additional borrowing.

Analytical approach: Standalone

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology for debt backed by Lease Rental Discounting \(LRD\)](#)

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

[Complexity Level of Rated Instruments](#)

About the Company

Classic Mall Development Company Private Limited (CMDCL) incorporated in the year 2005, is a Special Purpose Vehicle (SPV) floated for the purpose of development of the 'Phoenix Market City' mall at Velachery, Chennai. The company is also engaged in the development of residential real estate project. As on March 31, 2021, CMDCL is promoted by the Phoenix Mills Limited (50% stake), Crest Ventures Limited (46.35% stake), and Escorts Developers (3.65% stake). The PMC Chennai mall, with a total leasable area of 9.62 lakh square feet, was developed in December 2012 and became operational in January 2013. The mall has over 250 tenants and houses prominent retail brands as anchor tenants. Apart from the mall operations, CMDCL also has leased hotel named 'Design' (26 keys) located inside the mall. The company has developed a residential tower (Crest – Tower C) with 111 units above the terrace plate of the existing mall structure of which 20 units are unsold currently being retained by the promoters themselves.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9M FY22 (UA)
Total operating income	292.94	171.92	179.92
PBILD	181.46	120.21	123.88
PAT	74.87	26.74	53.78
Overall gearing (times)	1.14	1.09	0.92
Interest coverage (times)	2.65	1.85	2.96

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term		-	-	April 2029	215.87	CARE BBB+; Stable

*Rs. 215.87 crore is outstanding debt out of the Total sanctioned amount of Rs. 250 crore

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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	215.87	CARE BBB+; Stable	-	-	1)CARE BBB+; Negative (31-Mar-21) 2)CARE BBB+; Negative (11-May-20)	1)CARE BBB+ (SO); Stable (22-Jul-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based-Long Term	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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