

Quest Properties India Limited

July 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	65.22 (Reduced from 98.93)	CARE A-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in rating of Quest Properties India Limited (QPIL) factors in the healthy recovery in mall operations leading to improvement in operating and financial performance in FY23 (refers to period April 1 to March 31) coupled with successful renewal of majority of lease contracts with existing tenants at higher rentals. CARE takes note of dip in occupancy levels from 97% as on March 31, 2023, to 91% as on May 31, 2023, and expected time lag in re-leasing vacant spaces given Exclusive Beauty Zone being set up in first floor of the mall which would require existing tenants to move within the mall and the same taking time to complete fitouts. The rating continues to derive strength from being part of established promoter group - RP Sanjiv Goenka group, attractive location of the mall with satisfactory operational track record, reputed tenant profile - featuring national and international brands and comfortable capital structure as well as total debt to rental ratio. The rating also factors in additional letter of comfort extended by QPIL to fellow subsidiary Guiltfree Industries Limited (GIL). The ratings are tempered by the susceptibility of lease rentals to slowdown in economic environment and risk of non-renewal of lease agreements. The rating is also constrained by the company investing its surplus cash flows in subsidiaries, alternate investment funds and start-ups which impact its liquidity position.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in debt to rentals (<1x) on a sustained basis.

Negative factors

- Deterioration in debt to rentals (>3x).
- Any further increase in exposure (both fund and non-fund) towards group entities.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects the ability of the company to sustain its performance, on back of healthy occupancy level and reputed tenant profile with the company successfully completing the renewal of majority of lease agreements with its existing tenants at higher rentals or entering into lease agreement with new tenants.

Detailed description of the key rating drivers:

Key strengths

Established promoter group with presence across diverse business verticals: Quest Properties India Limited (QPIL) is part of the RP-Sanjiv Goenka Group. It is a 100% subsidiary of RPSG Ventures Limited (CARE BBB+; Stable). CESC Limited (CARE AA; Stable/ CARE A1+), a 123-year-old power utility company, is the flagship company of the group, engaged in power generation, transmission and distribution over Kolkata, Howrah, and adjoining areas. The group has interests across diverse business segments such as power, infrastructure, carbon black, retail, education, BPO and IT services, media & entertainment, packaged food, and beauty. The group diversified into real estate business through construction of Quest mall in Kolkata. Spencer's Retail Limited (CARE BBB; Negative/ CARE A3), a well-known supermarket retail chain is also owned by the group. By being part of a large and established group, QPIL enjoys financial flexibility.

Susceptibility of lease rentals and lease rollovers to any slowdown in the economic environment risk of nonrenewal of lease:

The company generally enters into lease agreements with the lessees for a tenure of nine years with a rent escalation clause of 15% after every third year. The last major escalation was affected in FY23. As the mall started operations in October 2013, the company's original lease agreements expired between September 2022 – Dec 2022. The company has successfully completed the renewal of majority of lease agreements with its existing tenants at higher rentals and entered into lease agreement with new tenants. Apart from increase in average minimum guarantee (MG) rentals at a higher rate, the company has also entered into revenue sharing agreement with few luxury brands unlike before under the new lease agreements. The new lease agreement has been entered in for a 6 to 9 years period-wherein the lock-in is mostly for three years. Given the strategic location of the mall, existing high occupancy, previous successful rounds of escalations, the roll over risk is reduced.

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

Reputed Clientele - mix of National & International brands: QPIL generates stable revenue in the form of rental income by leasing out around four lakh sq. ft. at Quest Mall located near Park Circus, Kolkata. The tenants comprise of prominent international and luxury brands like Gucci, Tommy Hilfiger, Burberry, Canali, Emporio Armani, TUMI, Michael Kors, Omega, Rolex and others. The lessees also include well-known national brands like Lifestyle, Satya Paul, Little shop, and Spencer's. The reputed tenant basket helps attract footfall and leads to lower counterparty risk. Apart from the lease rentals, the company also derives revenue from maintenance, parking income and others. The anchor shops namely Lifestyle International Private Limited, Inox Leisure Limited, Spencer's Retail Limited (CARE BBB; Negative/ CARE A3), Aditya Birla Fashion and Retail Limited, Global Kitchen – Food court and Burger King occupy a larger area size i.e., around 48% of the total leased out area in FY23. The company is revamping the mall, to address mall fatigue, wherein positioning/location of certain brands is being shifted as per mutual understanding majorly because of the dedicated beauty zone coming up on the first floor, starting Q3FY24. The company is setting up an exclusive beauty zone and is in discussion with leading beauty brands for leasing out spaces. Occupancy levels have dipped from 97% as March 31, 2023, to 91% as on May 31, 2023. There will be some time lag in re-leasing vacant spaces given exclusive beauty zone being set up which would require existing tenants to move within the mall and the same will take time for completing necessary fitouts. Although lower occupancy levels are expected to put moderate pressure on revenues in FY24, however, the same is expected to smoothen out starting FY25.

Favourable location of the mall with satisfactory operational track record: The connectivity of the mall is an added advantage as it is situated in central Kolkata and most of the modes of transport are available. The mall garners a good number of footfalls and has witnessed high footfall since its opening in view of being one of its kind mall with all the luxury brands most of which are debutants in Kolkata. Last fiscal the total turnover of the mall was around Rs 975 crores. The mall is in a residential area which is in striking distance from Park Street, Theatre Road, Ballygunge and Sealdah area. Lack of premium malls in this locality, gives Quest an opportunity to cater to the needs of larger mass. Post construction, QPIL has had a satisfactory operational track record of more than nine years.

Improvement in operating and financial performance in FY23: The total operating income increased y-o-y by 30.84% in FY23, on account of improved mall operations and renewal of leases at a higher rate with average leasing rate improving from Rs 197 per sq. ft to Rs 212 per sq. ft. The average monthly billing improved from Rs 8.15 crores to Rs 10.90 crores in FY23. As the company operates under the three revenue models (rental model, rental and revenue sharing model and revenue sharing model), high footfalls led to high operating margins. PBILDT margin thus improved from 60.95% in FY22 to 65.80 % in FY23 due to better absorption of fixed costs. The company also received deferral of lease rent from group company in FY23. In mid FY23, the company leased out its property in BKC Mumbai to Prestige Estates Projects Limited and will receive annual rentals of around Rs.7 crore.

This apart, QPIL has already developed Phase I of residential project at Haldia comprising a GT Hostel, one G+11 building and one G+12 building over a portion of the land measuring 2.5 acres out of land measuring 3.5 acres acquired by QPIL. The project caters to the growing housing requirement of some large renowned corporate houses based in the port township. The phase I development was backed by sale agreement of Haldia Energy Ltd (a group entity) (Rs.28 crore) and Tata Power Ltd (TPL) (Rs.32 crore) with tied-up revenue of around Rs.60 crore. The work under first phase is completed. However, during FY20, TPL cancelled 32 flats (4 floors out of 12 floors) which were lying in the inventory, of which 17 flats were sold till FY22. Furthermore, from 15 unsold flats, advance for 11 flats amounting to Rs.1.7 crore has been received in FY22 from which the full payment was received last fiscal. Of the balance, for 3 flats advances has been received in FY23 and 1 flat remains unsold. QPIL is evaluating the possibility of launching the Phase II on the balance of 2.5 acres of land by construction of a third tower on top of the Club House where piling was already done in Phase I. The estimated further costs are about Rs.20 crore while the estimated saleable value is about Rs.28 crore. Majority of regulatory approvals are already in place except sanction plan from Haldia Municipal corporation.

Comfortable capital structure marked by satisfactory total debt to rentals ratio: The capital structure of the company, though moderated, remained comfortable with overall gearing ratio of the company at 0.62 times when compared with same period last fiscal where it was at 0.58 times. The moderation in overall gearing was owing to increase in lease liabilities. The Lease liabilities pertain to the contract with CESC which has given the rights to QPIL, to run and operate the mall. The rights were till 2032 but the same is extended till 2047 and hence the increase as the future cashflows has been discounted and shown in the books.

However, debt protection metrics saw improvement on back of increasing accruals. Total debt to GCA improved from 3.70x as of Mar'22 to 3.19x as of Mar'23, whereas interest coverage ratio also saw improvement from 3.55 times to 4.00 times in FY23. Excluding lease liabilities of Rs 177.79 crores, total debt to MG rental also saw improvement from 0.75x as on March 22 to 0.29x as on March 23.

Key weaknesses

Exposure to group companies: The company in the year FY23, had given an additional LOC for Rs 118.75 crores term Loan taken by Guiltfree Industries Limited (CARE BBB-; Stable/ CARE A3), taking the total LOC exposure to Rs 234 crores as of March 31, 2023. Taking the same into account, adjusted gearing stands deteriorated from 0.97x as of Mar'22 to 1.30x as of Mar'23. It must be noted that even when Guiltfree is incurring operational level losses, such letter of comfort has not been invoked as Guiltfree is regularly servicing its debt related obligations. This is through support from RPSG Ventures Ltd (parent of both QPIL and Guiltfree) which has been regularly infusing funds in Guiltfree. Apart from this, exposure to subsidiaries have gone up from Rs 8.74 crores to Rs 22.80 crores mainly infused in RP-SG Unique Advisory LLP (RS.3.94 crore as on Mar 31, 2022, to Rs.17.30 crore as on Mar 31, 2023). Any further support extended to GIL or other group companies will remain key rating monitorable.

Increase in investment in alternate investment funds and start-ups: The total exposure in AIF and startups for the company increased from Rs 91.82 crores as on Mar 31, 2022, to Rs 112.57 crores as on Mar 31, 2023. As of March 31, 2023, investments in RPSG Alternate Investment Funds (AIF) increased from Rs.71.83 crore as on Mar 31, 2022, to Rs 102.86 crores as on Mar 31, 2023. Moreover, the company has further commitment of Rs 126 crores to be invested over a period of 5 years in AIF. Such sources are less liquid in nature and liquidity/repatriation from the AIF is not on the cards in the near term. In FY22, the company had invested Rs 19.99 crores in Compulsory Convertible Preference Shares (CCPS) of a FMCG startup, however 51% of the same has been sold in FY23.

Liquidity: Adequate

Adequate liquidity is marked by sufficient cushion in gross cash accruals (GCA) as against debt repayment obligations coupled with moderate cash balance to the tune of ₹ 4.80 crores as on March 31, 2023. The company earned GCA of Rs.67.55 crore vis-à-vis debt repayment of Rs.30.55 crore in FY23. For FY24 the company's debt repayment stands at Rs.34.62 crores which would be met entirely out of cash accruals.

Liquidity is also supported by unutilised limits of Rs.30 crore as on May 31, 2023. The company has further commitment of Rs 126 crores to be invested over a period of 5 years in group AIF. Furthermore, liquidity also considers the financial flexibility enjoyed by the company being part of the RP-SG group and fund support from RPSG Ventures Ltd, if needed.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Rating methodology for Debt backed by lease rentals](#)

[Rating methodology for Real estate sector](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Realty	Realty	Residential, Commercial Projects

Quest Properties India Limited (QPIL), a 100% subsidiary of RPSG Ventures Limited, was incorporated on February 2006, which belongs to RP-Sanjiv Goenka group based out of Kolkata. Quest commissioned operations in November 2013 as Kolkata's first in its class luxury mall and second largest mall, which is a house to the established global brands spread over a shopping area of around 4 lakh square feet with parking facility for more than 1,000 cars. QPIL has received various accolades in FY23, some of which were - 'Shopping mall of the Year – East', 'Images most admired Shopping Centre: Marketing and Promotion', 'Mapic India Most Desired Shopping Centre of the Year - East' and other reputable awards.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	103.98	139.03
PBILDT	67.84	91.82
PAT	24.09	38.34
Overall gearing (times)	0.59	0.62
Interest coverage (times)	3.55	4.00

A: Audited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	30.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	April 2024	32.22	CARE A-; Stable
Non-fund-based - LT-Bank Guarantee		-	-	-	3.00	CARE A-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	32.22	CARE A-; Stable	-	1)CARE A-; Stable (23-Jun-22)	1)CARE A-; Negative (04-Aug-21)	1)CARE A-; Negative (08-Oct-20)
2	Fund-based - LT-Cash Credit	LT	30.00	CARE A-; Stable	-	1)CARE A-; Stable (23-Jun-22)	1)CARE A-; Negative (04-Aug-21)	1)CARE A-; Negative (08-Oct-20)
3	Non-fund-based - LT-Bank Guarantee	LT	3.00	CARE A-; Stable	-	1)CARE A-; Stable (23-Jun-22)	1)CARE A-; Negative (04-Aug-21)	1)CARE A-; Negative (08-Oct-20)

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Lalit Sikaria Director CARE Ratings Limited Phone: + 91-033- 40181600 E-mail: lalit.sikaria@careedge.in</p>	<p>Analytical Contacts</p> <p>Arindam Saha Director CARE Ratings Limited Phone: +91-033- 40181600 E-mail: arindam.saha@careedge.in</p> <p>Punit Singhania Associate Director CARE Ratings Limited Phone: + 91-033- 40181620 E-mail: punit.singhania@careedge.in</p> <p>Ghanshyam Kedia Lead Analyst CARE Ratings Limited E-mail: G.Kedia@careedge.in</p>
--	--

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**