

Mani Square Ltd.

April 06, 2018

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Remarks |
|---|--|--|--|
| a. Long-term Bank Facilities [@] | 297.19 (enhanced from 218.26) | CARE BBB- (SO); Negative [Triple B minus (Structured obligation); Outlook: Negative] | Revised from CARE BBB (SO); Negative [Triple B (Structured obligation); Outlook: Negative] |
| b. Long-term Bank Facilities | 325.50 (reduced from 417.00) | CARE BBB-; Negative (Triple B Minus; Outlook: Negative) | Reaffirmed |
| c. Short-term Bank Facilities | 117.10 (reduced from 125.00) | CARE A3 (A Three) | Reaffirmed |
| Total | 739.79 (Rs. Seven Hundred and Thirty Nine crore and Seventy Nine lakh only) | | |

Details of instruments/facilities in Annexure-1

[@] based on credit enhancement in the form of structured payment mechanism for lease rental discounting (LRD) loan

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to Mani Square Ltd (MSL) for facility (a) above takes into account the moderation in the debt coverage indicators for the LRD loan, attributable to rise in the debt level (additional LRD loan of Rs.90 crore was taken during FY18) vis-à-vis the current lease rentals from the Mani Square Mall. The lease rentals are expected to increase on the back of revision in the lease rentals and entering into revenue sharing arrangement with the some of the key tenants. Further the rating for LRD term loan continues to derive strength from the structured payment mechanism wherein debt servicing of the loan is being made out of a designated account wherein the rentals received from the lessees of Mani Square Mall are being deposited. The funds in the designated account are prioritized for the servicing of the said loan and surplus, if any, is used for the other operations of the company. The rating also takes into account the high occupancy (~95%) of the mall along with increase in lease rentals over the last three years.

The ratings for bank facilities (b) and (c) draw strength from the rich experience and successful track record of the promoter in the real estate sector, successful completion of the Swarnamani Project (Phase I) and satisfactory advancement of Phase II & III of the said project. The rating also factors in the higher traction in sales from Mani Vista Project during last twelve months and Courtyard by Marriot Hotel nearing completion.

The rating is however constrained by salability and the construction risk associated with the ongoing projects, moderate financial risk profile of the company with significant exposure in the group companies, increasing competition with plethora of ongoing projects in and around Kolkata and dependence on the retail and real-estate sectors, which, in turn, are dependent on macro-economic factors.

Ability of the company to complete the on-going projects on time and at the proposed cost estimates as well as ensure the off-take of balance inventory as per envisaged timelines and any further increase in the debt levels shall be the key rating sensitivity.

Outlook Negative

The outlook on the long term rating is negative due to continuous rise in the debt levels & increasing exposure in the group companies having relatively weaker credit profile thereby leading to moderation in debt coverage indicators. The outlook may be revised to stable in case of higher than envisaged cash flows from the sale of projects and improvement in the financial performance of the group companies.

Detailed description of key rating drivers

Key Rating Strengths

Experienced promoter and successful track record of the group in real estate development

Mani Group, incorporated in 1980, is a Kolkata based real estate group well-known for development of real estate projects in both residential and commercial sector. Mr. Jhunjhunwala, aged about 62 years, is a first generation entrepreneur having three decades of experience in real estate industry. The group has a track record of having developed over 40 real estate projects, mainly in Kolkata.

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

Efficient project execution capabilities coupled with association with renowned architects and consultants

The group has satisfactory execution capabilities as evident from projects delivered in the past. The group is associated with renowned architects and contractors who have been associated with Mani group from the last seven years and have done the architecture work for many of its completed residential as well as retail projects.

High occupancy levels of the mall in the last three years, however, risk of non-renewal remains

Mani Square Mall is one of the renowned malls in Kolkata and witnesses good footfalls with ~95% occupancy levels during the last three years and its shops being occupied by renowned brands with a good past track record. However, lease agreements of the mall have a lock-in period ranging between three-seven years (mostly three years) due to which there exists a risk of non-renewal of rent agreements or renegotiation of lease agreements at lower rentals.

Structured payment mechanism for the LRD loan

The LRD loan is payable through a structured payment mechanism in terms of which repayment of principal and servicing of interest, shall be made out of a designated account to be funded from lease rentals being received from Mani Square Mall (for part area of 3.5 lakh sq ft), Signage, Commercial Area (0.23 lakh sq. ft.) and Car Parking Space. The rental income from the Mani Square Mall is expected to increase on the back of revision in the lease rentals and entering into revenue sharing arrangement with the some of the key tenants.

MSL ensures that funds for instalment payment are available in the Designated Account prior to the date of debt servicing. In case, any shortfall arises in the Designated Account, in servicing the aforesaid term loan, MSL is bound to infuse the shortfall.

Improvement in sales during the last twelve months

During the last twelve months, there has been improvement in sales of Mani Vista Project with company selling around 34% of the unsold inventory area of 1.7 lsf.

Key Rating Weaknesses***Moderation in debt coverage indicators for the LRD loan***

The company has availed additional LRD loan of Rs.90 crore in FY18 (structured repayment in 12 yrs) which has resulted in moderation in debt coverage indicators.

Construction as well as saleability risk associated with the ongoing projects

MSL is currently developing three projects – Courtyard by Marriot hotel at Siliguri, Mani Vista and Mani Imperial residential project, in addition to Phase II & III of the Swarnamani Project (Phase I has already been completed and around ~84% of the area has been sold till February 2018 with low traction in sales in the last twelve months).

The company is constructing two additional residential blocks (Phase II and Phase III) comprising of an aggregate area of around 4.9lsf (revised from 3.8 lsf) lakh square feet for a total project cost of ~Rs.145 crore. Till Feb'18 the company has expended around 46% of the total project cost and proposed to complete the project by December 2019 (in a phased manner). Till Feb'18 the company has sold around 61% of the salable area vis-à-vis 51% till Feb'17.

Mani Vista residential project is an upcoming premium residential apartment in the posh area of Tollygunge for a total project cost of Rs.176 crore. Till Feb'18 the company has expended 45% of the project cost with expected date of completion in Q2FY20. The company has sold around 61% of the total salable area till Feb'18.

For Mani Imperial residential project, the company has expended around 27% of the total project cost of Rs.242.0 crore. The project is expected to complete in Q4FY20. The company has sold around 17% of the total salable area till Feb'18 with no traction in sale in the last one year.

Further, the company is setting up a four-star hotel in Siliguri, West Bengal. The company has entered into marketing cum management contract with Marriott International, Inc, USA under 'Courtyard' brand for the same. Till Feb'18, the company has expended around 72% of the total project cost of Rs.155 crore and the project is expected to complete by Sep'18.

Moderate financial risk profile with significant group exposure

Financial performance for real estate companies generally remains erratic with the same peaking up in the year of project completion/delivery and declining substantially in other years MSL's financial risk profile is characterized by high debt levels (Rs.1005.1 crore as on Mar'17 vis-à-vis Rs.863.6 crore as on Mar'16) as significant amount of funds (including unsecured loans of Rs.161.8cr as on Mar'17) have been used to fund various real estate projects being implemented by MSL and other group entities. Overall gearing ratio remained high at 3.31 times as on March 31, 2017 vis-à-vis 3.22 times as on March 31, 2016.

As on March 31, 2017 MSL had a total exposure of Rs.529.3 crore (Rs.492.1 crore in the previous year) in its subsidiaries, joint ventures and associate companies. The company has also extended corporate guarantees for loans availed by its group companies (Rs.424 crore outstanding as on March 2017). The credit profile of the group companies wherein MSL has substantial exposure has weakened during the last twelve-eighteen months.

Increasing competition with plethora of ongoing large size projects in and around Kolkata

Over the last few years, Kolkata has witnessed significant growth in real estate sector with large number of renowned local as well as national level real estate players entering with large size projects in the city. Most of the projects of the company are located in and around the EM bypass area of Kolkata where a large number of real estate projects are coming up in the near future. Therefore, MSL faces competition from various ongoing large size projects in and around Kolkata.

Analytical approach: Standalone

Applicable Criteria

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

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

About the Company

MSL, part of the Kolkata-based Mani Group promoted by Mr. Sanjay Jhunjhunwala, is engaged in the construction, development and maintenance of commercial, retail as well as residential real estate. It owns and manages Mani Square Mall, which is a 7.3 lakh square feet retail mall in Kolkata. Over the last three years, the mall has enjoyed high occupancy levels (around 95%) and houses some of the leading national and international brands.

Further, the company has recently completed the Swarnmani Project (Phase I) and IQ city Residence and is currently executing three more residential projects [Swarnmani (Phase II & III), Mani Imperial & Mani Vista] and a four star hotel (Courtyard by Marriot) in Siliguri, West Bengal.

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|----------------------------------|----------|----------|
| Total operating income | 184.6 | 317.9 |
| PBILDT | 83.3 | 88.4 |
| PAT | 12.9 | 12.5 |
| Overall gearing (times) | 3.22 | 3.31 |
| PBILDT Interest coverage (times) | 1.32 | 1.36 |

A -Audited

Status of non-cooperation with previous CRA: CRISIL has suspended its rating vide its press release dated Dec.10, 2013 due to non-cooperation by MSL.

Any other information: Not Applicable

Rating History for last three years: 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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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 |
|--|------------------|-------------|---------------|-------------------------------|---|
| Fund-based - LT-Cash Credit | - | - | - | 30.00 | CARE BBB-; Negative |
| Fund-based - LT-Term Loan | - | - | June 2027 | 95.50 | CARE BBB-; Negative |
| Fund-based - LT-Term Loan | - | - | | 170.00 | CARE BBB-; Negative |
| Fund-based - LT-Term Loan | - | - | - | 0.00 | Withdrawn |
| Fund-based - LT-Lease rental discounting/ Rent Receivables Financial | - | - | July 2029 | 297.19 | CARE BBB- (SO); Negative |
| Non-fund-based - LT-Bank Guarantees | - | - | - | 30.00 | CARE BBB-; Negative |
| Non-fund-based - ST-Letter of credit | - | - | - | 117.10 | CARE A3 |

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. | Fund-based - LT-Term Loan | LT | - | - | - | 1)CARE BBB-; Negative (24-Apr-17) | - | 1)CARE BBB- (31-Dec-15) |
| 2. | Fund-based - LT-Cash Credit | LT | 30.00 | CARE BBB-; Negative | - | 1)CARE BBB-; Negative (24-Apr-17) | - | 1)CARE BBB- (31-Dec-15) |
| 3. | Fund-based - LT-Lease rental discounting/ Rent Receivables Financial | LT | 297.19 | CARE BBB- (SO); Negative | - | 1)CARE BBB (SO); Negative (24-Apr-17) | - | 1)CARE BBB (SO) (31-Dec-15) |
| 4. | Fund-based - LT-Term Loan | LT | 95.50 | CARE BBB-; Negative | - | 1)CARE BBB-; Negative (24-Apr-17) | - | 1)CARE BBB- (31-Dec-15) |
| 5. | Non-fund-based - LT-Bank Guarantees | LT | 30.00 | CARE BBB-; Negative | - | 1)CARE BBB-; Negative (24-Apr-17) | - | 1)CARE BBB- (31-Dec-15) |
| 6. | Fund-based - LT-Term Loan | LT | 170.00 | CARE BBB-; Negative | - | 1)CARE BBB-; Negative (24-Apr-17) | - | 1)CARE BBB- (31-Dec-15) |
| 7. | Fund-based - LT-Term Loan | LT | - | - | - | - | - | 1)Withdrawn (31-Dec-15) |
| 8. | Non-fund-based - ST-Letter of credit | ST | 117.10 | CARE A3 | - | 1)CARE A3 (24-Apr-17) | - | 1)CARE A3 (31-Dec-15) |

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