Merlin Projects Limited

August 28, 2017

Rating

Facility	Amount (Rs. Crore)	Rating[1]	Rating action
Long-term Bank facilities	60.00	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Assigned**
Total facilities	**60.00 (Rupees Sixty crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Merlin Projects Limited (MPL) derives comfort from MPL's promoter's rich experience in the real estate industry & its satisfactory track record of operations, steady progress & bookings achieved across most of the current ongoing projects, regular lease rentals from commercial space in Homeland & Acropolis Malls in Kolkata, availability of reasonable land bank, company's below unity debt equity metrics on the back of low reliance on debt for project funding.

The rating is tempered by MPL's high reliance on customer receivables, regulatory risks and susceptibility of the real estate markets to the economic cycles.

Going forward increase in the debt exposure & exposure to group entities, timely collection of customer receivables & completion of the ongoing projects within the estimated time remains key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Promoter's rich experience in the real estate industry with long track record of operation

Merlin Projects Limited (MPL) is the flagship entity of the Merlin group of Kolkata which has a history of more than 35 years of operations in the business of real estate construction. The Group has developed over 100 residential and commercial complexes and 150 independent bungalows, encompassing more than 10 million Sq. Ft. mostly in and around Kolkata. Mr. Sushil Mohta, the Managing Director of MPL has rich experience of over three decades in the business of real estate construction.

Lease rentals from Malls and commercial space provides firm source of revenue

Merlin group has constructed two malls in Kolkata viz. Acropolis Mall and office (at Kasba) (in a group company) and Homeland Mall (at Bhawanipur in Merlin Projects Ltd). Both the malls enjoy locational advantages and witnesses reasonable footfalls. Merlin group receives fixed rentals (around Rs.35 crore per year) which in turn provides a steady flow of revenue.

Steady bookings achieved in most of the projects

Currently, there are 10 ongoing projects in the Merlin group with an aggregate saleable area of 39.41 lsf (3 projects under the name of MPL aggregating to 6.92 lsf and balance under various group entities). For projects under MPL, aggregate saleable area is around 6.92 lsf out of which the entity has already sold 2.87 lsf i.e. around 41.47% of the area sold. One such project name 'The One' having an aggregate saleable area of 4.29 lsf has been recently launched in May 2017. On the other hand, the company has 7 ongoing projects under various JVs and associates. The total saleable area of all such project in aggregates is 32.49 lsf with MPL's share being 17.12 lsf. As on May 15, 2017, the group has already sold 52% of the total saleable area.

Moderate financial risk profile marked by low reliance on debt for project funding

The financial risk profile of MPL stood moderate marked by low reliance on debt as indicated by a debt to equity ratio & overall gearing ratio of below unity. Most of the residential projects of the group have been financed by the way of customer receivables. As on March 31, 2017 (prov.) the company has total debt outstanding of Rs.67.63 crore. On a group basis (including JVs, subsidiaries & Lease rental discounting loans) the total debt outstanding was 248.42 crore as on March 31, 2017. Of the above debt, Rs.129 crore is LRD loan which is secured by rentals of the two malls. Any significant increase in debt levels in the group would be a key rating sensitivity.

MPL's networth was Rs.284.90 crore as on March 31, 2017 (Provisional).

MPL follows completion method of revenue recognition. FY16 was marked by a significant increase in sales as the company completed the construction of Acropolis Mall during the period which is amongst the large projects undertaken by the group till date.

Key Rating Weaknesses

High Reliance on customer advances

Currently, there are 10 ongoing projects in the Merlin group with an aggregate saleable area of 39.41 lsf (3 projects under the name of MPL aggregating to 6.92 lsf and balance under various group entities). The total project cost of all the projects is around Rs.1205 crore and the group has incurred Rs.610.14 crore till date. Majority of the balance cost yet to be

incurred is proposed to funded out of customer receivables. Any delay in receipt of the customer receivables would impact the construction progress of the project.

Regulatory risks

Real estate projects are prone to varying degrees of uncertainty, both at the macro-level, which affects the economy as a whole and at the sector level. The projects are prone to local, state, and national laws and regulations (governing acquisition, construction and development of land, etc.). Failure to comply with such rules and regulations often lead to delays or in the worst case, complete closure of the project; all of which may lead to a complete or partial loss of capital invested.

Susceptibility of the real estate market to economic cycles

Real estate sector is highly susceptible to economic cycles. Health of an economy in terms of GDP, employment data, manufacturing activity, prices of goods, etc, affects the value of real estate in such a way that when economy is sluggish real estate sector is affected in a similar way.

Investment in group entities

MPL executes projects both on its own name and through various group entities. As on March 31, 2017 (Provisional), MPL's aggregate investments in group entities for projects as well as for land banks stood at Rs.220.42 crore as against Rs.241.97 crore as on March 31, 2016. Going ahead, increase in debt laden exposure to group entities remains a key rating sensitivity.

Analytical approach: Standalone. Exposure in group entities/JVs has also been factored in the analysis

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector

About the Company

Merlin Projects Limited (MPL), the flagship entity of the Merlin group of Kolkata, a real estate developer, was incorporated on October 11, 1984 upon conversion from a partnership firm which in turn was set up in 1976. MPL is a Real Estate entity with focus on residential, commercial complexes, retail, country homes and hospitality. In addition to this, the group also has presence in the real estate markets of Ahmedabad, Pune, Raipur and Chennai. MPL as a group undertakes to develop a real estate project either under its own name or through various joint ventures/associations/subsidiaries.

Brief Financials (Rs. crore)	FY15 (A)	FY16 (A)
Total operating income	99.29	223.08
PBILDT	37.12	47.72
PAT	19.33	25.41
Overall gearing (times)	0.36	0.41
Interest coverage (times)	5.89	4.95

A: Audited

Status of non-cooperation with previous CRA:

CRISIL has suspended its rating on the bank facilities of Merlin Projects Ltd vide its press dated June 26, 2015 on account of non-cooperation by MPL.

ICRA vide its press release dated June 16, 2017 has announced a delay in carrying out periodic review of MPL due to "Issuer not cooperating".

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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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
Fund-based - LT-Term Loan	-	-	March 2025	34.00	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	26.00	CARE A-; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	34.00	CARE A-; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	26.00	CARE A-; Stable	-	-	-	-

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