Merlin Projects Limited

December 24, 2018

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	42.03 (reduced from 60)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total facilities	42.03 (Rs. Forty-Two Crore and Three lakhs Only)		

Details of facilities/instrument in Annexure I

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Merlin Projects Limited (MPL) continues to derive 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 land bank and low reliance on debt for project funding.

The rating continues to be constrained by the high reliance on customer receivables, regulatory risks and susceptibility of the real estate markets to the economic cycles.

Increase in the debt exposure from current level and exposure to group entities, timely collection of customer receivables and completion of the ongoing projects within the estimated time remain the 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

MPL is the flagship entity of the Merlin group of Kolkata which has a presence of more than 35 years in real estate construction. The group has developed over 100 residential and commercial complexes and 150 independent bungalows, encompassing about 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.

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

The Merlin group has developed two malls in Kolkata viz. Acropolis Mall and office (at Kasba) and Homeland Mall. Both the malls enjoy locational advantage and witness reasonable footfalls. Merlin group receives fixed rentals (around Rs.40 crore per year) which provides a steady flow of revenue. Apart from the above fixed rentals, the malls also generate income from car parking fees and kiosks. The present contracted cash flow in both the commercial spaces covers the servicing obligations for debt availed for these projects.

Steady progress and bookings achieved in most of the projects

Currently, there are 11 ongoing projects in the Merlin group with an aggregate saleable area of 45.31 lsf (4 projects under MPL and balance under various group entities/JVs). For projects under MPL, aggregate saleable area is around 9.29 lsf out of which the entity sold 4.33 lsf i.e. around 47% of the area till June 30, 2018. During FY18 (refers to the period April 1 to March 31), company launched two new projects namely Merlin Gangotri at Uttarpara and Merlin Verve at Tollygunge with saleable area of 1.71 lsf each. Another project named Merlin Legacy which was launched in February 2014 is almost completed (possession to be given by December 2018) and the entity has sold 75.19% of the total saleable area.

The company has 7 ongoing projects under various JVs and associates. The total saleable area of such project in aggregate is 36.02 lsf with MPL's share being 20.06 lsf. As on June 30, 2018, the group has already sold about 71% 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 and overall gearing ratio of below unity as on March 31, 2018. Majority of the projects of the group are being financed by way of customer advances. As on March 31, 2018 the company had total debt outstanding of Rs.57.43 crore and networth stood at Rs.322.53 crore as on that date.

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

On a group basis (including JVs, subsidiaries & Lease rental discounting loans) the total debt outstanding was Rs.252.62 crore as on October 15, 2018 (MPL's debt for projects in its own book was Rs.59.3 crore and its share in JV's and group entities was Rs.193.32 crore). Out of the above debt of Rs.252.62 crore, Rs.130 crore is Lease rental discounting (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 follows completion method of revenue recognition. FY17 was marked by a significant increase in sales as the company booked sales of Merlin Crest. In FY18 company booked the sales of Merlin legacy as the completion certificate was received.

Availability of land bank
As on June 30, 2018, the group has land bank area spread across Kolkata, Bhubaneshwar, Bangalore and Pune with land cost of around Rs 322 crore. Availability of land bank gives reasonable revenue visibility of the group in term of launching future projects at relatively lower land costs.

Key Rating Weaknesses
High reliance on customer advances
Major part of the cost for the on-going projects is expected to be funded out of customer advance which in turn is contingent upon the ability of the group to market its projects and timely collection of its receivables. The total cost of the 11 projects currently under execution is Rs.1428.40 crore and the group incurred Rs.885 crore till June 30, 2018 on the same. Majority of the balance cost yet to be incurred is proposed to be funded out of customer receivables. However, the customer advances receivable from already sold inventory as a percentage of remaining construction cost and debt to be repaid remained satisfactory at about 84%.
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. The management has confirmed that all the regulatory norms with respect to West Bengal Housing Industry Regulatory Authority (WBHIRA) are complied with in all of its ongoing projects.

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.

Liquidity
The company has a cash credit limit of Rs.27 crore which remains utilized between 20% to 40%. The availability of unutilised limit provides cushion in case of temporary cash flow mismatches. A large part of the debt of the group is also supported by contracted cash flows in the form of lease rentals receivable. Further, the customer advances receivable are sufficient to meet the project construction cost and the company has satisfactory collection efficiency.

Analytical approach: Standalone. Overall cash flow position of the projects under the group and exposure and investment commitment 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
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 has focus on residential projects, commercial complexes, retail, country homes and hospitality in Kolkata. In addition to this, the group also has presence in the real estate markets of Ahmedabad, Pune, Raipur, Jaipur and Chennai. The group undertakes to develop a real estate project either under its own name or through various joint ventures/associations/subsidiaries.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	140.27	99.72
PBILDT	40.90	50.21
PAT	19.38	32.63
Overall gearing (times)	0.24	0.18
Interest coverage (times)	3.98	4.80

A: Audited

Status of non-cooperation with previous CRA:
CRISIL has suspended its rating on the bank facilities of MPL vide its press dated June 26, 2015 on account of non-cooperation by MPL.
ICRA vide its press release dated September 6, 2017 has moved the rating of MPL to 'Issuer not cooperating' category based on no updated information on the entity's performance.

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.*

Analyst Contact:
Name: Ms Mamta Muklania
Tel: 033-4018 1651
Mobile : 98304 07120
Email: mamta.khemka@careratings.com

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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-Term Loan	-	-	March 2029	16.03	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 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	16.03	CARE A-; Stable	-	1)CARE A-; Stable (28-Aug-17)	-	-
2.	Fund-based - LT-Cash Credit	LT	26.00	CARE A-; Stable	-	1)CARE A-; Stable (28-Aug-17)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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