Unique Estates Development Company Limited

November 10, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long term Bank Facilities (Term loan)	377.00	**CARE A (Under Credit watch with Negative Implications) (Single A) (Under Credit watch with Negative Implications)**	**Revised from CARE AA- (Double A Minus); Continues to be on Credit watch with Negative Implications**
Long term Bank Facilities (Overdraft)	40.00	**CARE A (Under Credit watch with Negative Implications) (Single A) (Under Credit watch with Negative Implications)**	**Revised from CARE AA- (Double A Minus); Continues to be on Credit watch with Negative Implications**
Total Facilities	**417.00 [Rs. Four hundred and seventeen crore only]**		
Fixed Deposits	70.00 **(Rs. Seventy crore only)**	**CARE A (FD) [Single A (Fixed Deposit issue); (Under Credit watch with Negative Implications]**	**Revised from CARE AA-(FD) [Double A Minus (Fixed Deposit issue); Continues to be on Credit watch with Negative Implications]**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision of ratings assigned to the bank facilities and fixed deposit issue of Unique Estate Development Company Ltd. (UECL) factor in the moderation in the credit risk profile of the company on account of weakening of cash flows as a result of significant decline in rental collection owing to challenging market conditions and elevated business risk as reflected through disruption in mall operation due to Covid-19 outbreak. This has resulted into pressure on the debt coverage indicators. The revision in ratings also factor in application made by UECL under OTR (One Time Restructuring) facility on August 12, 2020.

As informed by the company, post the partial resumption of malls in Mumbai in August 2020, the company's cash flows from operations have remained under stress as around 50% of the mall space is operational and with tenants seeking waiver or deferment or reduction of rental payments till the normalization of operations. Multiplexes, family entertainment centres (FECs) in the malls remained non-operational as per government guidelines to avoid large gatherings while food and beverage outlets have been permitted to open with around 50% capacity. Moreover, there has been moderation in the occupancy rate of the malls as certain tenants have vacated the property in view of lower business demonstrated by lower footfall in the malls as compared to pre-covid levels. This has impacted the cash flows of the company severely in H1FY21.

Resultantly, UECL applied for the One Time Restructuring (OTR) facility to its lender, under RBI guidelines issued on August 6, 2020. Further, post the moratorium period availed (i.e from March 2020 to August 2020), UECL has chosen not to make any debt repayment on the originally scheduled dates i.e. on Sept 07, 2020, Oct 07, 2020 as well as principal repayment on the overdraft facility on September 30, 2020 as the same was not considered due by its lender on account of OTR process being initiated and lying under consideration with the lender. CARE further notes, that at the same time, the company had maintained liquidity in the form of free bank balances (including unencumbered FDs) in the range of around Rs.23crore to Rs.31crore on such dates. In addition to this, the company maintained DSRA (Debt Service Reserve account) equivalent to one month EMI (i.e. Rs.6.35 crore) and also had undrawn overdraft balance of ~Rs.5 crore on such dates.

CARE has revised the rating in line with CARE Ratings criteria on the 'Analytical treatment for one-time restructuring due to Covid-19 related stress', issued on September 29, 2020.
(https://www.careratings.com/upload/pr/Analytical%20treatment%20of%20restructuring%20-%20COVID-Revised-29.pdf)

The OTR application is under consideration with the lender and the receipt of approval for invocation prior to December 31, 2020 is a key rating monitorable. Moreover, the business risk profile of the company is expected to remain under pressure in near to medium term owing to slower recovery in footfall on the back of majority shops, multiplex and FEC's are yet to be operationalized and consumers may remain wary of visiting enclosed retail establishments owing to fear of spread of coronavirus resulting into overall lower economic activity for tenants in the mall. This resulted into re-negotiations with the tenants which are yet to be concluded and may have an adverse impact on the inflow of lease rentals, vacancy and rental rates. Hence, it may lead to delay in pick-up of rental collection to pre-covid levels. Resultantly, the ratings continue to

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

remain placed under 'credit watch with negative implications'. CARE shall monitor the progress of the OTR application, as well as that of malls returning to operational stability. CARE will resolve the watch once clarity emerges on the same.
The ratings assigned to the long term bank facilities and fixed deposits issue of UECL continues to factor in proven track record of the promoter group combined with experienced management, prime location of mall properties, healthy occupancy levels though moderated to an extent with increase in roll over risk amidst challenging business environment in H1FY21, adequate liquidity and future inflow from completed residential units coupled with presence of DSRA and comfortable capital structure.
The above rating strengths are, however, tempered by significant decline in inflow of lease rentals from malls during H1FY21 and expected to remain subdued in the near term as there lies uncertainty in pickup of lease rentals owing to disruption in operations caused by temporary shutdown of facilities in malls on the back of covid-19 pandemic resulting into softening of debt service coverage indicators. The rating also factors in geographic concentration and support to other group companies as well as inherent cyclical nature of the retail and real estate sectors.

<u>Rating Sensitivities</u>
Positive Factors
- Debt to annualized rentals should be below 1.75x
- Earlier than anticipated recovery at a pre-covid level before end of June, 2021 as a result of significant ramp up in mall operations and/or significant support from the promoter group to allay the impact of lockdown

Negative Factors
- Rejection of OTR application or delay in implementation
- Slower than anticipated progress in the ramp-up of rental collections within the envisaged timeframes due to higher vacancy or reduced lease rental rates.
- Higher reliance on debt or reduction in liquidity resulting into significant deterioration in financial risk profile of the company.
- Any major debt funded capex or sizeable additional investments in group concerns

Detailed description of the key rating drivers
Key Rating Strengths
Experienced and resourceful promoters and well-known brand name: UECL was promoted by Late Mr. G.L. Raheja and is currently headed by Mr. Sandeep G. Raheja. The group has experience of over six decades in real estate. K. Raheja Construction (promoter –group holding 100% in UECL), a company founded in 1956, has successfully completed various retail, hospitality, residential, industrial and commercial projects all over India. The promoter and the top management of UECL are well qualified and have a strong expertise in developing real-estate projects.

Prime location of malls in Mumbai micro-market: Both the malls of UECL are located strategically in the Andheri-Borivali Zone which has healthy occupancy level of over 90% in past three years. With one mall located in Andheri (West) and the other at Malad (West), they are well placed to cater to the large residential catchment area of Andheri-Borivali Zone in the the northern suburb of Mumbai where the individual in these areas have income higher than individuals in the smaller micro-markets. The malls are well connected with all the modalities of transport and in the past have attracted healthy footfalls on the back of having healthy mix of anchor, mini anchor and refreshment tenants.

Healthy occupancy rate; albeit rollover risk persists: The occupancy level of both the malls put together though moderated from 99% as on March 31 2020 to 92% as on September 30 2020; yet it remained at healthy levels. The occupancy level has fallen owing to certain tenants opting for vacating the property as the footfalls are sparse and it has impacted the overall business for the tenants. Besides, the loan tenure is longer than the existing lock-in period of 3-5 years with an inbuilt escalation clause at the end of an average three years. Thus, the rollover risk exists amidst a challenging business environment in the current year. Nevertheless, comfort can be drawn from strategic location of the property, fit-out cost being incurred by the tenants and majority of the existing tenants though are in negotiation mode, yet have exhibited interest to remain occupied with their retail spaces as informed by the management. Further, the company expects that eventually vacancy created will get replenished in next few months time as the business gains momentum. Thus, maintenance of healthy occupancy rate is critical from credit perspective.

Steady cash flows with comfortable gearing levels in FY20; albeit cash flows expected to remain subdued in FY21: Both the malls (Andheri and Malad) are established and operational since 14 years and 8 years respectively and together on an average used to earn monthly rental income of around Rs.15-16 crore prior to lockdown which provided a steady source of revenue for the company. The sustained high overall occupancy levels in the past years have contributed to stable cash flows of the company. As per FY20 (Audited) UECL reported satisfactory financial performance registering a y-o-y growth of 3% in

total operating income to ~Rs.351 crore from ~Rs.340 crore in FY19. For FY20, the company reported PAT of Rs.161.24 crore (PY: Rs.119.72 crore) and GCA of Rs.158.55 crore (PY: Rs.136.90 crore). The overall gearing ratio has improved from 0.51x as on March 31, 2019 to 0.40x as on March 31, 2020 on the back of increase in net worth due to ploughing back of profits into the business. The company has comfortable interest coverage ratio from FY14-19 (interest coverage ratio of 5.41x in FY20). Besides, presence of debt service reserve account DSRA equivalent to one month installment and interest (EMI) provides some comfort.
However, during H1FY21, the financial risk profile has moderated as the business operations were impacted and inflow of lease rentals remained subdued and expected to remain contracted due to covid-19. Post lifting of lockdown CARE expects recovery to be slow and gradual which is likely to result in moderation in debt coverage indicators.

Additional cash flows from future sale of completed residential units: The company has access to additional cash-flow amounting to around Rs.180 crore from unsold inventory of residential unit of around 65,600 sq. ft. at Raheja Classique, Andheri. The OC for the project is in place. There is no balance construction cost to be incurred or outstanding debt against the inventory. Going forward, cash flows from sale of this inventory shall support the revenue and liquidity profile of the company; however with the sales velocity in the past one and half year being nil, realization of additional cash flows from sale of units in the present challenging environment, remains to be seen.

Key Rating Weaknesses
Moderation in credit risk profile owing to significant fall in lease rentals leading to pressure on debt coverage indicators: The mall operations remained shut since March 25, 2020 as per the directives by the central government towards containment of Covid-19 pandemic to avoid mass gatherings and were partially allowed to open from August 05, 2020 without food courts, theatres and fun zones. As on date 50% of the Mall operations are still under lock down as Food court, Theaters and Games zone are not allowed to function. The company is not receiving any lease income against this, neither the company has granted any waiver. For balance 50% stores which have become operational with lease rental payment of only 25-30% of the license fees on a monthly basis. As informed by the management, the company has collected around Rs.7 crore as lease rentals (including CAM) in the month of September 2020 as compared to around Rs.20 crore on a monthly basis during pre-covid levels. Accordingly, there is moderation in credit risk profile of the company on account of significant fall in lease rentals leading to pressure on debt coverage indicators. Going forward, ramp-up in collection of lease rentals to pre covid levels is a key rating monitorable.

OTR application under consideration with the lender owing to stress in cash flows: During the current fiscal, the company's cash flows from operations have remained under stress as around 50% of the mall space is allowed to be operational with tenants seeking waiver or deferment or reduction of rental payments till the normalization of operations. Multiplexes, family entertainment centres (FECs) in the malls remained non-operational as per government guidelines to avoid large gatherings while food and beverage outlets have been permitted to open with around 50% capacity. Moreover, there has been moderation in the occupancy rate of the malls as certain tenants have vacated the property in view of lower business demonstrated by lower footfall in the malls as compared to pre-covid levels. This has impacted the cash flow generation ability of the company severely. As a result, UECL has applied for the OTR vide emails dated August 12, 2020 and August 13 2020 to its lender, under RBI guidelines issued on August 6, 2020.
Post the moratorium period availed (i.e from March 2020 to August 2020), UECL has not made any debt repayment on the originally scheduled dates i.e. on Sept 07, 2020, Oct 07, 2020 as well as principal repayment on the overdraft facility on September 30, 2020 despite availability of liquidity as the company has been advised not to remit any payment as same was not considered due by its lender on account of OTR process being already initiated and lying under consideration with the lender. The company had liquidity in the form of free bank balances (including unencumbered FDs) in the range of around Rs.23crore to Rs.31crore on such dates. In addition to this, the company has maintained DSRA (Debt Service Reserve account) of one month EMI (i.e. Rs.6.35 crore) and also had undrawn overdraft balance of ~Rs.5 crore on such dates. Further, as an interim measure while the OTR is under consideration, the lender has allowed moratorium of principal till March 31 2021 while the interest needs to be serviced regularly. This is subject to finalization of OTR process. Thus, in line with CARE Ratings criteria on the 'Analytical treatment for one-time restructuring due to Covid-19 related stress', the non-payment of the scheduled debt repayment has not been considered as default as the OTR application was made before the due date to the lender, which is a banking institution.

Geographical Concentration: Both the malls of the company are located in Mumbai, thus company is exposed to risk of geographic concentration. Any downturn in such micro markets will impact company's revenues going forward. However, considering the large catchment area it serves, the same acts as a mitigant to an extent.

Support to group companies: K. Raheja Construction Group primarily has main business operations in three companies UECL, Palm Grove Beach Hotels Pvt. Ltd. (PGBHL) (rated 'CARE A-; Stable') and Ferani Hotels Private Limited (FHPL) (rated 'CARE

BBB+; Stable'). These companies along with promoter have formed a partnership firm 'Park View Developers' where the surplus funds in all group companies are parked and utilized for any capex within the group thus providing financial support/flexibility for the entire group. However, as on March 31, 2020, UECL has invested around Rs.1,201 crore (Rs.1,088 crore as on March 31, 2019) in various group companies which is quite significant as compared to its networth. Further, as indicated by the management, there lies uncertainty with regard to timelines for realization of funds back into the company.

Liquidity: Adequate
As on October 16, 2020 the company has cash balance and fixed deposits (FD) balances of Rs. 38.09 crore (balances net of DSRA FD is Rs.31.74 crore). The company has maintained liquidity in the form of Debt service reserve accounts (DSRA) of Rs.6.35 crore covering one month of debt service obligations, and also has undrawn overdraft limits of Rs.3 crore as on October 16, 2020. Besides, the company also maintains additional FDs of Rs.17 crore to support any redemption of FDs in the near term. During H1FY21, the company has faced redemptions to the extent of only 6.94 crore. Thus, with only interest being needed to be serviced on regular basis until the OTR process is finalized, the liquidity position seems to be adequate.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Definition of Default
Financial Ratios – Non financial sector
Analytical treatment of Restructuring - COVID
Rating methodology: Notching by factoring linkages in Ratings
Rating Methodology for Debt backed by LRD

About the Company
Unique Estates Development Company Ltd. (UECL) is a part of K Raheja Constructions Group. The company is engaged in development and management of malls and also development of residential real estate project. The company has two operational malls under the brand name of 'Infinity'- one at Andheri which is operational since 2005 (having total lease-able area of 2.66 lsf; out of which as on September 30, 2020 around 84% (FY20: 95%) has already been leased out) and one at Malad which has been operational since 2011 (having total leaseable area of 8.39 lsf; out of which as on September 30, 2020 around 95% (FY20: 100%) has already been leased out). Apart from the two malls above, UECL also has units in completed residential building 'Raheja Classique' at Oshiwara (with a total saleable area of 3.68 lsf; out of this 3.03 lsf has already been sold. There is no balance construction cost to be incurred or outstanding debt against the inventory (around Rs.180 crore).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	340.04	351.47
PBILDT	237.49	228.02
PAT	119.72	161.24
Overall gearing (times)	0.51	0.40
Interest coverage (times)	5.87	5.41

A: Audited; Note: Numbers are classified as per CARE internal standards

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	May 2025	377.00	CARE A (Under Credit watch with Negative Implications)
Fund-based - LT-Bank Overdraft	-	-	-	40.00	CARE A (Under Credit watch with Negative Implications)
Fixed Deposit	-	-	-	70.00	CARE A (FD) (Under Credit watch with Negative Implications)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	377.00	CARE A (Under Credit watch with Negative Implications)	1)CARE AA- (Under Credit watch with Negative Implications) (22-Apr-20)	1)CARE AA-; Stable (19-Feb-20)	1)CARE AA-; Stable (18-Feb-19)	1)CARE AA-; Stable (04-Jan-18)
2.	Fixed Deposit	LT	70.00	CARE A (FD) (Under Credit watch with Negative Implications)	1)CARE AA- (FD) (Under Watch with Negative Implications) (22-Apr-20)	1)CARE AA- (FD); Stable (19-Feb-20)	1)CARE AA- (FD); Stable (18-Feb-19) 2)CARE AA- (FD); Stable (30-Apr-18)	1)CARE AA- (FD); Stable (04-Jan-18)
3.	Fund-based - LT-Bank Overdraft	LT	40.00	CARE A (Under Credit watch with Negative Implications)	1)CARE AA- (Under Credit watch with Negative Implications) (22-Apr-20)	1)CARE AA-; Stable (19-Feb-20)	1)CARE AA-; Stable (18-Feb-19)	1)CARE AA-; Stable (04-Jan-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. FACR	FACR of 1.50 to be maintained during the currency of the loan i.e. LRD to not to exceed Rs. 424.00 cr - as per last available sanction letter dtd 29.03.2017
B. Non financial covenants	
I. Change in structure	During the currency if the loans, the company will not, without bank's prior permission in writing formulate any scheme of amalgamation or reconstitution.

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fixed Deposit	Simple
2.	Fund-based - LT-Bank Overdraft	Simple
3.	Fund-based - LT-Term Loan	Simple

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

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Vikash Agarwal
Group Head Contact no.- 022 – 6837 4427
Group Head Email ID- vikash.agarwal@careratings.com

Relationship Contact
Name: Saikat Roy
Contact no. : 022 – 6754 3404
Email ID : saikat.roy@careratings.com

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