

Press Release

Mani Square Limited (MSL)

February 20, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1	Long Term Bank Facilities- Term Loan	197.78	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Mani Square Limited (MSL) takes into account the rich experience and successful track record of the promoter in the real estate sector, favourable location of the Mani Square Mall leading to high occupancy levels in the last five years. The rating also factors in its efficient project execution capabilities in real estate segment coupled with association with renowned architects & consultants, successful completion of its five star hotel- ‘Courtyard by Marriot’, existence of structured payment mechanism for the LRD loan availed against mall rentals and growth in operating income in FY19 and in H1FY20. However, the rating strengths are partially offset by its moderate financial risk profile with significant exposure (including corporate guarantees) to other group companies, increasing competition in the real estate segment with plethora of ongoing large size projects in and around Kolkata, project execution risk with multiple projects executed simultaneously along with saleability risk associated with the ongoing projects and risks inherent to real estate sector.

Key Rating Sensitivities

Upward Factor:

Upward Factor

- Successful and timely completion of the on-going residential projects,
- Ability to sell-off the balance inventory in Swarnmani, Vista & Imperial Projects
- Timely renewal of lease agreements with tenants in the mall

Downward factor

- Rise in the debt levels & increasing exposure in the group companies

- Any delays in project execution leading to cost overruns with lower-than-expected cash flows from the unsold inventories and any deterioration in liquidity profile

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Strong promoter groups with considerable experience in real estate and hospitality sector**

“Mani Group”, incorporated in 1980, is a well-established business group in Kolkata with business interests across real estate (residential and commercial) and hospitality, having completed more than 30 million square feet of development across Kolkata, Durgapur, Jaipur, Siliguri and Bhubaneswar in the past 35 years of its existence. Mr. Jhunjhunwala, aged about 58 years, is a first generation entrepreneur having more than three decades of experience in real estate industry. He is the major person in establishing Mani Group as a formidable player in real estate sector of Kolkata. He is ably supported by a team of professionals with rich experience in the real estate sector.

- **Successful track record in real estate development for residential projects**

Till date, the Mani group has developed over 52 real estate projects (aggregate saleable area of 105.08 lakh sq. ft.) mainly in Kolkata, Durgapur and Bhubaneswar. The projects implemented by the group command superior market price in comparison to other properties due to its superior quality and availability of various modern amenities.

- **Favorable location of the Mani Square Mall**

The mall is located at EM Bypass, around 8 km from Howrah railway station and around 10 km from Kolkata’s airport. The location is very near to the IT sector and is well connected with the city through good network of roads. The 1st East-West Metro, which has recently started connects Mani Square Mall with the IT- Hub Sector-V.

- **Efficient project execution capabilities coupled with association with renowned architects & 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 over the years and have done the architecture work for many of its completed residential as well as commercial projects.

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

Mani Square Mall is one of the renowned malls in Kolkata and witnesses good footfalls with ~90% occupancy levels during the last five years and its shops being occupied by renowned brands with a good past track record. Further, the mall has currently seen new entrants- Shopper Stop, Star Bucks, Reliance Trends, which will boost the brands in the mall. 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, Signage, Commercial Area 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 of the aforesaid loan, MSL is bound to infuse the shortfall.

- **Successful completion of its five star hotel- ‘Courtyard by Marriot’**

The company had set up a four-star hotel in Siliguri, West Bengal and has entered into marketing cum management contract with Marriott International, Inc, USA under ‘Courtyard’ brand for the same. The hotel is fully operational with 129 keys. The company has incurred around Rs.158.98 crore for the hotel, which is funded through a debt equity ratio of 1.30:1 and the project started operation from January, 2019. In 9MFY20, the company has booked hotel revenue of around Rs.14.24 crore with average occupancy of around 50%.

The hotel property also includes premium office spaces on the 3rd and 4th floor in the rear block of the development having separate entrance to itself and hi-street retail space on the

ground and the 1st floor with demarcated space facing the Hill Cart Road having a direct entrance to itself. Premium office spaces has already been leased out to one of the corporate and for hi-street retail space, the company is in talk with top retail brands and expect to start earning lease rental from it soon.

- **Necessary approvals for all ongoing projects in place**

MSL currently has 3 on-going projects at different stages of execution. The company has received necessary approvals for all of its ongoing projects, mitigating the regulatory risks in entirety.

- **Growth in operating income in FY19 and in H1FY20**

The total operating income of MSL has improved by more than 97% y-o-y in FY19 to Rs.339.46 crore from Rs.172.06 crore in FY18. The company has also achieved a topline of Rs.235.56 crore for H1FY20. The growth was mainly driven by higher sale of its existing real estate inventory.

Key Rating Weaknesses

- **Moderate financial risk profile with significant exposure (including corporate guarantee) to group companies**

MSL's financial risk profile is characterized by high debt level as significant amount of funds have been used to fund various real estate projects being implemented by MSL and other group entities. Considering subordinated unsecured loans from the related parties aggregating to Rs.75.65 crore as quasi equity, overall gearing ratio remained high at 2.53 times as on March 31, 2019 (2.33 times as on March 31, 2018). However, the total indebtedness as reflected by the TOL/TNW remained satisfactory at 2.59x as on March 31, 2019 (2.89x as on March 31, 2018). The company has also extended corporate guarantees for loans availed by its group companies (Rs.1025.0 crore outstanding as on March 31, 2019 vis-à-vis Rs.1035 crore outstanding as on March, 2018).

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

Over the last few years, Kolkata has witnessed tremendous 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. However, given the brand image of the group in Kolkata and satisfactory track record of the company in execution of real estate projects, booking of remaining flat does not appear to be an issue.

- **Project execution risk with multiple projects executed simultaneously along with saleability risk associated with the ongoing projects**

MSL is currently developing three projects –Mani Vista, Mani Imperial residential project and Tower IV&V of the Swarnamani Project (Tower I, II and III has already been completed and around ~92% of the area has been sold till October, 2019). The company is constructing two additional residential blocks (Tower IV and Tower V) in the Swarnamani Project, comprising of an aggregate area of around 3.23 lsf and 1.65 lsf for a total envisaged project cost of ~Rs.120 crore and Rs.80 crore respectively for Tower IV and V. Till Decembar'19, the company has expended ~67% of the total project cost of tower IV and V respectively. The company has sold ~63% and ~83% of the saleable area of Tower IV and V respectively till Decembar'2019 and proposed to complete the project in 2020 (in a towerd manner).

Mani Vista residential project is an upcoming premium residential apartment in the posh area of Tollygunge (Kolkata) for a total project cost of Rs.120 crore. Till Dec'19 the company has expended around 54.17% of the total project cost and sold around 80% of the total saleable area.

For Mani Imperial residential project, the company has expended ~60% of the total project cost of Rs.250.0 crore and the project is expected to completed in 2021. The company has sold ~30% of the total saleable area till December'19. The project is in premium residential project category and the sale of units in this category plummeted in the recent years given the overall slowdown in the economy. The effect has been felt more in the luxury segment.

- **Risk inherent to real estate sector**

Kolkata real estate sector is highly fragmented and the local players provide stiff competition. The industry is capital intensive and highly cyclical. However, Kolkata premium residential real estate industry is less sensitive to any economic slowdown owing to lack of entry of national level players due to dearth of investor confidence controlling supply side factors and good demand from end driven users. Further, the real estate market is negatively related with the interest rate cycle. High interest rate discourages buyers from borrowing to finance real

estate purchases and also increases the cost of construction for developers. The banks have already taken a cautious approach and have reduced their exposure to the sector and hence, most developers now rely on their private sources for the project funding. However, MSL has already sold a good portion of its Swarnamani Project and Vista Project coupled with management upholding that most of its projects are in the premium category and the targeted customers are not likely to be much affected by the interest rate hikes.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Real estate Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The projects of MSL have been funded by a combination of debt, customer advances and promoter funds. MSL executes its projects primarily by means of customer advances and promoter funds. Hence, the liquidity is largely dependent on regular and timely receipt of customer advances. As on March 31, 2019, the company had cash balance of Rs.9.17 crore. Further, all the projects are approved by Banks and the company has already achieved good amount of booking for the on-going projects and do not envisage any delay in loan disbursement on the basis of the progress of construction.

About the Company

Mani Square Limited belongs to Kolkata-based Mani Group is engaged in the construction, development and maintenance of commercial, retail as well as residential real estate. Mani Group promoted by Mr. Sanjay Jhunjhunwala is into Real Estate, Retail, Hospitality, Medical College & Hospitals and other activities for more than 3 ½ decades in Eastern India through various companies. It has a track record of delivering more than 52 real estate projects comprising both residential and commercial projects across IT/ ITeS, Commercial, Residential as well as Retail and Hospitality spanning Kolkata, Durgapur, Jaipur, Siliguri and Bhubaneswar. MSL owns and manages Mani Square Mall and the mall has enjoyed high occupancy levels (around 90%) and houses some of the leading national and international brands.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	162.09	306.74
EBITDA	8.13	12.43
PAT	0.21	1.18
Total Debt	49.19	52.69
Tangible Net worth	20.72	26.15
EBITDA Margin (%)	5.02	4.05
PAT Margin (%)	1.14	0.38
Overall Gearing Ratio (x)	2.37	2.01

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Term Loan	Long Term	197.78	IVR BBB- Stable Outlook	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Ratings Assigned/ Outlook
Long Term Bank Facilities- Term Loan	-	-	May 2034	197.78	IVR BBB- / Stable Outlook
Total				197.78	