December 27, 2022

Merlin Acropolis Projects Pvt Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	53.38	53.38	[ICRA]A (Stable); reaffirmed
Fund-based - Term Loans	201.62	201.62	[ICRA]A (Stable); reaffirmed
Non-fund based - Bank Guarantee^	(2.00)	(2.00)	[ICRA]A1; reaffirmed
Total	**255.00**	**255.00**	

**Instrument details are provided in Annexure-I; ^ sublimit of Working Capital Facilities*

Rationale

The ratings reaffirmation for Merlin Acropolis Projects Pvt Ltd (MAPPL) factors in the established market position of the Merlin Group, with a track record of over four decades in the real estate industry, particularly in and around Kolkata. The Group has strong project execution and sales capabilities, as demonstrated by consistent delivery of good quality projects covering more than 10 million square feet (msf) of area across residential, commercial, and retail segments. The ratings note the healthy occupancy of the mall at 91% as of June 2022, the attractive location of Acropolis Mall, in Kolkata and the reputed tenant profile. MAPPL's leverage and coverage metrics are expected to be comfortable with Debt/Net rentals at 4.8–5 times as of March 2023 (PY: 7.7 times) and the average five-year DSCR around 1.23 times in FY2023. Additionally, the presence of debt servicing reserve account (DSRA) in the form of fixed deposit equivalent to one quarter of interest and principal repayment, and an escrow structure, provides comfort. ICRA has revised its analytical approach for MAPPL from consolidated view to the rating approach based on the parent group support, in line with its methodology on consolidation. ICRA expects the parent (MPL) to extend extraordinary financial support to MAPPL if need arises, given their business linkages, strategic importance, and the parent's reputation sensitivity to default.

The ratings, however, are constrained by the vulnerability of MAPPL's debt coverage metrics to changes in occupancies, rental realisations and interest rates. The ratings factor in the moderate lessee concentration risk, with the top three tenants occupying close to 42% of the total leasable area and contributing 30% to the total rental revenue. Notwithstanding the comfortable weighted average lease expiry profile of the asset, the cash flows could be adversely impacted in case of an early termination of any of the anchor tenant leases. Further, its dependence on a single asset exposes the company to asset concentration risk.

The Stable outlook reflects ICRA's expectation that the company will continue benefit from the strong promoter group, while maintaining healthy occupancy levels at adequate rentals.

Key rating drivers and their description

Credit strengths

Strong sponsor group with an established market position in eastern India - The Merlin Group has an established track record of over four decades in the real estate industry, particularly in and around Kolkata. The Group has strong project execution and sales capabilities, as demonstrated by consistent delivery of good quality projects covering more than 10 msf of area across residential, commercial, and retail segments. The Group also has a leased retail portfolio of around 0.31 msf across two properties, with average occupancy level of around 93% as of June 2022.

Healthy occupancy levels and reputed lessee profile - Operational since 2015, The Acropolis Mall is favourably located in an upcoming commercial hub and thus, benefits from a populous catchment area, resulting in high overall occupancy of 91% as of June 2022. The properties have a diversified tenant profile and includes reputed anchors such as Shoppers Stop, Cinepolis and Marks and Spencer, with no major lease falling due for renewal in the near term. The recovery in operational metrics since the lockdowns support the cash flows and debt coverage metrics.

Comfortable debt coverage metrics; presence of structural features such as escrow mechanism and DSRA - MAPPL's leverage and coverage metrics are expected to be comfortable with Debt/Net rentals at 4.8–5 times as of March 2023 (PY: 7.7 times) and the five-year average DSCR of around 1.23 times in FY2023. The company has created a DSRA in the form of fixed deposit equivalent to one quarter of interest and principal repayment. The receivables are routed through an escrow mechanism, which prioritises debt servicing.

Credit challenges

Debt coverage metrics vulnerable to changes in occupancies, rent realisations and interest rates - While the committed occupancy for MAPPL's mall remains healthy at 91% as of June 2022, the debt protection indicators would remain vulnerable to any changes in occupancies, rent realisations and interest rates.

Moderate tenant concentration and asset concentration risks - The mall's top three tenants occupy close to 42% of the total leasable area and contribute 30% of the total rental revenue, thus exposing the company to lessee concentration risks. The risk is mitigated partly as there are no major lease renewals in the near term. Given its single asset nature, there is revenue concentration risk with future cash flows linked to the performance of the single asset.

Liquidity position: Adequate

As on March 31, 2022, MAPPL had cash and cash equivalents (including DSRA) of Rs. 11.14 crore. The rental collections together with interest on group company loans are likely to remain adequate to meet the corresponding asset costs and outstanding debt obligations. The company maintains a DSRA equivalent to one quarter of principal and interest servicing on the LRD loan availed against the mall.

Rating sensitivities

Positive factors - Significant improvement in liquidity and coverage metrics, along with improvement in the credit profile of the parent, MPL, could also favourably impact the ratings.

Negative factors - Negative pressure on the ratings could arise if there is a sustained pressure on occupancy or rental rates, resulting in the five-year average DSCR falling below 1.2 times. Further, a material deterioration in the credit profile of the parent, MPL or any weakening in the operational and financial linkages with the parent could lead to a revision in the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Lease Rental Discounting (LRD) Rating Approach based on implicit support by Parent or Group
Parent/Group support	Parent: Merlin Projects Limited (MPL) ICRA expects MPL to extend extraordinary support to MAPPL if need arises given their business linkages, strategic importance, and the parent's reputation sensitivity to default
Consolidation/Standalone	Standalone

About the group

The Kolkata-based Merlin Group has over four decades of experience in the realty sector. The Group has developed over 100 residential and commercial complexes and 150 independent bungalows, with a total constructed area more than 10 msf, mostly in and around Kolkata. The Group has some presence in other parts of India with various residential and commercial projects at Chennai, Chhattisgarh, Pune, Bhubaneswar, and Ahmedabad. Merlin Project Limited (MPL) is the flagship entity of the Merlin Group and was established in 1976 as a partnership firm and converted to a public limited company in 1992.

About the company

Merlin Acropolis Projects Pvt Ltd. was established in 2009 for developing a stadium and a commercial complex under a Public Private Partnership model with the Kolkata Metropolitan Development Authority. The company developed Acropolis Mall, which comprises 3B+G+18 floors and is located on Rajdanga Main Road in Kolkata. 3B+G+4 are dedicated to the mall and floors 5th to 18th are for commercial office space. The mall and 5th floor of the commercial office space lies under MAPPL, with the remaining office space from 6th to 18th floor is in a group company, MPL. The total leasable area available with MAPPL as on date stands at around 0.26 msf.

Key financial indicators (audited)

MAPPL (Standalone)	FY2021	FY2022
Operating income	20.7	28.0
PAT	4.3	12.2
OPBDIT/OI	93.5%	92.2%
PAT/OI	20.9%	43.7%
Total outside liabilities/Tangible net worth (times)	3.1	2.6
Total debt/OPBDIT (times)	10.5	7.5
Interest coverage (times)	0.8	1.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs. crore; all ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on June 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2019
					Dec 27, 2022	Sep 21, 2021	Jun 05, 2020	Mar 08, 2019
1	**Working Capital Facilities**	Long-term	53.38	NA	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	**Term Loans**	Long-term	201.62	193.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	**Bank Guarantee^**	Short-term	(2.00)	NA	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

^ sublimit of Working Capital Facilities

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Working Capital Facilities	Simple
Long-term - Term Loans	Simple
Short-term - Bank Guarantee	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital Facilities	NA	NA	NA	53.38	[ICRA]A (Stable)
NA	Term Loans	May 2019	7.55%	March 2031	201.62	[ICRA]A (Stable)
NA	Bank Guarantee^	NA	NA	NA	(2.00)	[ICRA]A1

Source: Company data; ^ sublimit of Working Capital Facilities

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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