



Rating Rationale

Entertainment City Limited.

September 28, 2017

Brickwork Ratings assigns rating for the Bank Loan Facilities amounting to Rs. 800 Crs of Entertainment City Limited.

Particulars:

Facility	Amount (In Crs.)	Tenor	Recommendation
Term Loan (Lease Rental Discounting)	800**	Long Term	BWR BBB+ (SO) (Pronounced Triple B Plus (Structured Obligation)) Outlook: Stable
Total	800	(INR Eight Hundred Crores Only)	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

**Including proposed LRD of Rs. 150 Crores.

Rationale/Rating Sensitivities:

BWR has principally relied upon the audited financial results of the company up to FY16, provisional for FY17, projection up to FY19 publicly available information and information/clarifications provided by the company.

The rating reflects ECL's steady and robust accruals. The strong accruals are the result of the strong lessee profile of The Great India Place Mall, Gardens Galleria Mall and standalone buildings which have been leased out to marquee tenants like Kidzania, Decathlon, etc., its consistently high occupancy levels, sturdy footfalls in Amusement Park and Water Park, and its good reputation in National Capital Region (NCR). Also, by virtue of being in the Sector 18, Noida, the mall is able to generate footfalls from offices, multiplexes and hotel.

Rating derives comfort from the company's strong promoter group, International Amusement Ltd (IAL), the promoters of Appu Ghar (the first amusement park in India). IAL holds 53.15% stake in ECL. The Ratings also draw support from the size and scale of the Project along with the existing tenant profile and established retail & amusement destination gives a distinct advantage to the Project.

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The rating captures the rental escrow mechanism put in place for the rated loan programme whereby rentals are directly deposited into escrow account and utilized first for debt servicing before release of any surplus cash flows towards other requirements of the company.

The rating is, however, constrained by the decline in footfalls in the mall in FY2017 due to increase in intensity of competition in National Capital Region (NCR) and due to the impact of demonetisation.

Brickwork also note the company's plans to expand the project by adding trampoline and Inox Cinemas, however, the actual impact of the same cannot be ascertained as the plans are currently at initial stages. The rating is further constrained by Lease Renewal Risk and absence of DSRA for the rated LRD loan which can absorb any short-term mismatches in rental receipts.

Going forward, Brickwork expects ECL's operational cash flows to remain healthy on account of its strong operating metrics. Nevertheless, the quantum of investment made for planned expansion and consequent impact on its debt coverage indicators will be the key rating sensitivities.

Key Rating Drivers:

Strengths:

- **Experienced Promoters and Management:** ECL is promoted by International Amusement Limited (Promoter of Appu Ghar) .It is managed by the Appu Ghar management who is pioneer in amusement park industry and have more than 3 decade of experience in this industry.
- **Positive Cash Flow:** Significant positive cash flow generation since commencement of operations due to the mall's high rentals and healthy occupancy levels
- **Favourable location of the mall in Sector 18 in Noida;** Project is located opposite to Noida Sector-18 market which is a prime commercial and retail hub of the city. Project has access to the Delhi Metro Sector-18 and Botanical Garden metro stations, providing the site excellent connectivity and accessibility to Noida and all parts of NCR. The amusement park industry has strong entry barriers especially in terms of land, the Project is spread over 147.48 acres which will be difficult to replicate by a new entrant. Presence of "Worlds of Wonder" and "Water Park" within the site enhance the visibility and exposure of the subject development to visitors.
- **Long Term Lease Contracts reflecting revenue Stability:** The rating favourably factors in the strong occupancy level in both the Malls (The Great India Place and Garden Galleria), its strong tenant profile and presence of a long term lease contracts for all lease agreements put in place.
- **Escrow Mechanism:** Lease rentals and other Collections (CAM) to be collected from the tenants and other sources to be deposited in a designated account and to be utilized in order of priority as agreed by the lenders.

Weakness:

- **High Competition:** The rating constrained by company's existing as well as potential competition from multiple malls in National Capital Region (NCR).
- **Average Debt Coverage Indicators:** The rating is constrained by high indebtedness coupled with average debt coverage indicator owing to project expansion being at nascent stage. The DSCR of the company remained modest in FY17, stood at 1.10 times. Timely renewal of leases at reasonable rentals beyond initial lock-in period would be critical for maintaining an adequate DSCR. Besides, the cash-cover adequacy remains vulnerable to any changes in interest rates, or operational delay in remittances of rentals. Receipt of rentals in a timely manner on a monthly basis would determine the company's ability to service debt obligations in a timely manner, particularly in the absence of a Debt Service Reserve Account (DSRA)
- **Analytical approach:** Due to the creation of rental escrow mechanisms for the rated loan programme backed by lease rentals, the cash flows of the rated loan would be ring-fenced from the overall cash flows of the company. Hence the SO rating primarily factors in the cash flow adequacy for the rated loan alone and not for the entity as a whole.

About the Company:

Entertainment City Ltd. (ECL) is a subsidiary of International Amusement Limited (IAL), sponsors of first amusement park "Appu Ghar" in New Delhi. ECL was incorporated on 7th February, 2002 as International Recreation Parks Pvt. Ltd. to acquire, purchase, develop and operate Amusement Parks and Entertainment Centers, Malls and Commercial Complexes. On 21st January 2016, it was renamed to Entertainment City Ltd. International Amusement Ltd. holds 53.15% of the equity in ECL while Unitech Holdings Ltd. (a wholly owned subsidiary of Unitech Ltd.) holds 41.95% equity stake as a financial investor only, with balance being held by the private equity investor (funds promoted by IL&FS).

ECL develops and operates Entertainment City at Noida in Uttar Pradesh. The company was allotted 147.48 acres of land in 2002 on a 90-year lease for developing an amusement-cum-entertainment park and for commercial purpose. ECL developed the project in three phases. The first phase saw development of a shopping mall, The Great India Place, and the Teen Zone of the amusement park named Worlds of Wonder, covering 44 acres. The second phase covered a shopping mall, Gardens Galleria, and completion of the amusement and waterpark, on 84 acres of land. The third phase included a 10-screen Inox complex and Trampoline envisaged to be operational by July`19 and Oct`18 respectively.

The strategic and day to day management of the Company lies with Managing Directors, Mr. Monny Vijeshwar and Mr. Rana Rajesh Kumar Gangahar under the guidance of Mr. Gian Vijeshwar, Chairman of the Company and founder of 'Appu Ghar'.

Rating Outlook: Stable

BWR believes that **Entertainment City Limited.**'s business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the company is able to increase its margin. The rating outlook may be revised to 'Negative' if the debt coverage metrics deteriorates any further.

Company's Financial Performance:

Till FY16 company was recognizing revenue from selling of units (on basis of percentage completion, reported income from real estate projects amounting Rs. 92.38 Crores in FY16), which is not there in FY17.

Key Financial Figures			
Particulars	Unit	FY16 (A)	FY17 (UA)
Operating Income	Rs. Crores	257.01	178.13
EBITDA	Rs. Crores	67.73	81.67
PAT	Rs. Crores	8.24	7.47
Tangible Networth	Rs. Crores	410.97	418.4
Total Debt : Equity	Times	1.57	1.53

Sl. No.	Facility	Current Rating (Aug 2017)			Rating History		
		Type	Amount (Rs Crs)	Rating	2016	2015	2014
1	Term Loan (Lease Rental Discounting)	Long Term	800	BWR BBB+(SO)	NA	NA	NA
	Total		800	(INR Eight Hundred Crores Only)			

Rating History for the last three years:

Status of non-cooperation with previous CRA: NA

Hyperlink/Reference to Applicable Criteria:

- [General Criteria](#)
- [Approach to Financial Ratios](#)

- [Service Sector](#)

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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