Pride & Expert Properties Private Limited

July 24, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Fund based- Overdraft	20.0	20.0	[ICRA]BB (Stable); reaffirmed
Unallocated	20.0	20.0	[ICRA]BB (Stable); reaffirmed
Total	**40.0**	**40.0**	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB (pronounced ICRA double B)[1] assigned to the Rs. 20.0-crore[2] overdraft facility and the Rs. 20.0-crore long-term unallocated facility of Pride & Expert Properties Private Limited (PEPPL). The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation takes into account the healthy booking levels and collection efficiency with satisfactory construction progress of the first phase of its on-going residential project, Pride Enchanta. The rating draws comfort from the comfortable capital structure of the company with no long-term debt as indicated by gearing of 0.1 times as on March 2018. The rating takes into account the company's asset light model of entering into Joint Development Agreements (JDA's) with the landowners which reduce the upfront requirement for capital investment. The rating also considers PEPPL's healthy track record of operations in the Bangalore real estate market, coupled with strong execution capabilities, as demonstrated by the completion of more than 1.1 million sq. ft. of development.

The rating is, however, constrained by the low bookings and collections achieved in the second phase of the project, Pride Enchanta, and the delay in launch of the project, Pride Palatia, thereby increasing the market and execution risks. Considering that there is significant cost yet to be incurred in the projects, Pride Enchanta second phase and Pride Palatia, the company's ability to improve its sales velocity remains critical to maintain adequate level of customer advances to fund the balance cost. The rating factors in the decline in operating profitability in FY2018 primarily due to deferment of income from the project management consultancy (PMC) offered by PEPPL for the project, Pride Wilasa. The rating is also constrained by the weak return on capital employed with significant investments, loans and advances to Group companies, and a substantial amount given in advance as refundable JDA deposit to land owners. Going forward, the ability of the company to realise the refundable JDA deposit, advances to Group companies and the PMC service income in a timely manner will remain critical from the credit perspective. Moreover, the ability of the company to execute the ongoing projects within the budgeted cost and time and to achieve the desired sales momentum would also be the key rating sensitivities.

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[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publication*

[2] *100 lakh = 1 crore = 10 million*

Outlook: Stable

The Stable outlook reflects ICRA's expectation that PEPPL will continue to benefit from the extensive experience of its promoters and the moderate brand presence of the company in Bengaluru. The outlook may be revised to Positive if the company is able to realise the PMC income in a timely manner and if healthy sales progress and speedy execution of Pride Enchanta phase two results in improved receipt of customer advances. The outlook may be revised to Negative if cash flow from operations is lower than expected, either because of subdued booking levels or low customer advances or if any significant delay in completion of projects or further support to Group companies weakens the liquidity position of the company.

Key rating drivers

Credit strengths

Extensive experience of promoters in the real-estate industry - Established in 1993, PEPPL is engaged in real-estate development with the promoters, Mr. AP Jain and Mr. Murari Lal Saraogi having more than three decades of experience in the real estate and construction industry. The promoters have long experience through other group concerns as well and have completed several projects of more than 1.1 million. sq. ft. across Bengaluru.

Healthy sales progress in phase one of Pride Enchanta – The company has achieved satisfactory construction progress with healthy sales (80% booking levels) and collections (87% of the sale value) for its ongoing project, Pride Enchanta phase one, as on March 31, 2018, resulting in reduced execution, marketing and funding risks for the project. The pending collections and unsold value cover 171% of the pending cost for the project. The surplus from the project will aid in the execution of phase two as well.

Healthy capital structure– The company's capital structure remained healthy with no long-term debt, as indicated by a gearing level of 0.1 times as on March 31, 2018, resulting in healthy financial flexibility for the company. The company's debt consists of an overdraft facility of Rs. 20 crore, utilised across all projects.

Credit challenges

Subdued collections in FY2018 – The company witnessed lower-than-expected collections in FY2018 for Pride Enchanta phase two and Pride Palatia for which the launch has been deferred due to delay in getting commencement certificate from BBMP. The improvement in collection efficiency will be contingent upon the construction progress and sales velocity achieved for the projects in the near term.

Deferment of revenues from PMC – The revenues from the PMC offered by PEPPL for the Pride Wilasa project has been deferred to FY2019 and FY2020 primarily on account of subdued response to the high-end project. The income from PMC would provide comfort to the liquidity position of the company in the near to medium term. However, the realisation of the same in a timely manner remains to be seen.

Exposure to inherent cyclicality in the real-estate industry, coupled with prevailing weak macro-economic scenario - Being a cyclical industry, real estate is highly dependent on macro-economic factors, which make the company's sales vulnerable to any downturn in the real-estate demand and the competition within the region from various established developers.

Significant investments and advances to group companies – The company has invested and also advanced significant amounts in the Group companies. Besides, a substantial amount is advanced as refundable JDA deposit to land owners, impacting the liquidity of the company and resulting in low return on the capital employed.

High execution and market risks for the project, Pride Palatia – The execution and market risks for Pride Palatia is high given that the project is in early stages of implementation and is yet to be launched.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology-Real estate entities

About the company:

PEPPL is a part of the Pride Group, which has an established position in the residential and commercial segments of the Bangalore real-estate market. It has developed about 1.1 million sq. ft. of built-up area in Bangalore. The company takes up most of its projects in JDA with the landowner where the land is held by the owner and the company completes the construction activity, which reduces the upfront capital investment. The company has two ongoing projects – Pride Enchanta and Pride Palatia. It is expected to receive revenues of Rs. 30 crore for the project management consultancy offered by PEPPL for the project, Pride Wilasa, which would support to fund the pending cost of the ongoing projects.

In FY2018, as per the provisional figures, the company reported a net profit of Rs. 1.4-crore on an operating income of Rs. 46.6-crore, as compared to a net profit of Rs. 3.4-crore on an operating income of Rs. 31.7-crore in the previous year.

Key Financial Indicators

	FY 2017	FY2018P
Operating Income (Rs. crore)	31.7	46.6
PAT (Rs. crore)	3.4	1.4
OPBDIT/ OI (%)	11.9%	5.8%
RoCE (%)	4.7%	3.1%
Total Debt/ TNW (times)	0.1	0.1
Total Debt/ OPBDIT (times)	1.9	4.6
Interest coverage (times)	5.5	2.2
NWC/ OI (%)	16.0%	46.2%

P: Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 2018 (Rs Crore)	Date & Rating July 2018	Chronology of Rating History for the past 3 years Date & Rating in FY2018	Date & Rating in FY2017 Mar 2017	Date & Rating in FY2016 Mar 2016	Date & Rating in FY2015 Jan 2015
1	Cash Credit	Long Term	20.00	-	**[ICRA]BB (Stable)**	-	**[ICRA]BB (Stable)**	**[ICRA]BB (Stable)**	**[ICRA]BB (Stable)**
2	Unallocated	Long Term	20.00	-	**[ICRA]BB (Stable)**	-	**[ICRA]BB (Stable)**	**[ICRA]BB (Stable)**	**[ICRA]BB (Stable)**

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Over draft	-	-	-	20.00	[ICRA]BB (Stable)
NA	Unallocated	-	-	-	20.00	[ICRA]BB (Stable)

Source: PEPPL

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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