August 23, 2022

S.E. Builders and Realtors Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	200.00	200.00	[ICRA]BBB+ (Stable); Reaffirmed
Total	**200.00**	**200.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation for S.E. Builders and Realtors Limited (SEBRL) factors in the healthy cash flow adequacy from the ongoing phase of the Utalika project as well as the advanced stage of construction, along with the vast experience and track record of the Ambuja Neotia Group, the promoter group, in the Kolkata real estate industry. The Group has developed more than 200 lakh square feet (lsf) of area comprising residential and commercial spaces and hospitality projects through various joint venture and subsidiary companies over the past two decades. The Group's track record and the attractive location of the project, with good connectivity and presence of adequate social infrastructure in the vicinity, has supported the project's saleability. Of the 19.54 lsf area launched for sale over March 2016 to March 2021, more than 98% has been sold as on March 31, 2022. Of the 172 units in the ongoing phase (luxury Phase IV), 97% has been sold. Further, the company has minimal costs to be incurred against the launched phases of the project.

As on March 31, 2022, the receivables from the sold inventory stood at Rs. 224 crore, compared to the pending project cost of Rs. 47 crore for luxury Phase IV and debt outstanding of Rs. 28 crore. The sizeable undrawn bank limits provide further cushion to the cash flows. The surplus estimated from the ongoing phase can fund nearly 50% of the cost for Phase V of the project, which is scheduled to be launched in Q3 FY2023.

The rating is, however, constrained by the company's exposure to execution and market risks for the upcoming phase and the cyclicality of real estate industry. The rating notes the high geographical and asset concentration risks, which is inherent in a single project entity. The sales response for the upcoming phase, the collection trend and the extent of reliance on external debt for completion of the phase will be critical from the credit perspective.

The Stable outlook reflects ICRA's expectation that the credit profile will be supported by the Group's track record and the healthy saleability demonstrated in the launched phases of the project.

Key rating drivers and their description

Credit strengths

Healthy bookings supported by favourable location and advanced stage of construction – Utalika is spread over five launched phases, including one lower and middle income group (LIG/MIG) phase and four high income group (HIG) phases, with each phase consisting of one tower. A total of 19.54 lsf was launched for sale in phases over March 2016–March 2021. The project received a positive market response, particularly during the recent quarters, supported by the favourable location of the project with good connectivity and presence of adequate social infrastructure in the vicinity. Completion of luxury Phase III in December 2021 further supported the sales velocity, taking bookings up to 98% of the launched area as of March 2022 against 84% in March 2021. The collections remained healthy at 82% of the sale agreement value.

Robust cash flow adequacy for ongoing phase with limited dependence on external debt – As of March 2022, the project achieved sales of around Rs. 1,223 crore and has received customer advances of Rs. 999 crore. Thus, the receivables from the sold area stand at around Rs. 224 crore. Against this, around Rs. 1,053 crore has been spent on the launched area of the project, with around Rs. 47 crore remaining to be incurred. With most of the launched phases being complete/at advanced stages of completion, the receivables are adequate for funding the balance pending cost for the ongoing phase and can fund nearly 50% of the cost for the upcoming Phase V of the project.

Established market position of promoter group, Ambuja Neotia Group – The Ambuja Neotia Group is an established player in the real estate space in eastern India, especially in Kolkata, West Bengal, with a long track record of construction. It has completed more than 200 lsf of development comprising residential and commercial spaces and hospitality projects through various joint venture and subsidiary companies over the past two decades.

Credit challenges

Exposure to execution and market risks, especially for the upcoming phase – At present, the company plans to add saleable area of 7.4 lsf through Phase V. The project is exposed to execution and market risks and may result in higher debt drawdown in case of any weakness in sales and customer collections.

Geographical and asset concentration risks – The company is exposed to high geographical and asset concentration risks, which is inherent in a single project portfolio. However, the same is mitigated to an extent, given the healthy sales velocity observed in the earlier phases of the project.

Exposure to cyclicality inherent in real estate business – The real estate sector is cyclical and marked by volatile prices and a highly fragmented market structure because of the presence of a large number of regional players. Being a cyclical industry, real estate is highly dependent on macro-economic factors. This, in turn, makes the company's sales vulnerable to any downturn in real estate demand and competition within the region from various established developers.

Liquidity position: Adequate

As on March 31, 2022, the company had cash balance of Rs. 13.4 crore and liquid investments of Rs. 23.3 crore compared to scheduled repayment obligations of Rs. 28 crore in FY2023. Further, the presence of undrawn OD lines of ~Rs. 100 crore and receivables of around Rs. 224 crore from the sold area as on March 31, 2022 provides comfort.

Rating sensitivities

Positive factors – Significant improvement in the scale of operations along with improved business diversification, while maintaining healthy leverage position and liquidity profile would be credit positive.

Negative factors – Slower than expected collections resulting in significant increase in reliance on external debt, impacting SEBRL's financial risk profile, would be credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

SEBRL was incorporated in 2011 by the Ambuja-Neotia Group, for developing a mixed-use project named Utalika in Mukundapur, Kolkata. Though a private equity player had acquired a 40% stake in the project in FY2012, the Ambuja Neotia Group bought back the stake in Q3 FY2018 through Group companies, Ambuja Neotia Holdings Private Limited and Bengal Ambuja Housing Development Limited.

Utalika is spread over five launched phases, including one LIG/MIG phase and four HIG phases, with each phase consisting of one tower. Each tower is around 25 storeys high, although the number of units per floor varies. The launched area of the project has a saleable area of 19.54 lsf to be built at a cost of Rs. 1,100 crore. ICRA notes that the company is considering a further expansion in project area with saleable area of ~7.4 lsf.

Key financial indicators

SEBRL Standalone	FY2021	FY2022
Operating income	25.9	278.4
PAT	6.5	57.0
OPBDIT/OI	77.4%	28.5%
PAT/OI	24.9%	20.5%
Total outside liabilities/Tangible net worth (times)	3.7	1.8
Total debt/OPBDIT (times)	6.4	0.4
Interest coverage (times)	1.1	10.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

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 Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Aug 23, 2022	Jul 30, 2021	Oct 06, 2020	Sep 09, 2019
1	**Term loans**	Long term	200.0	28.0	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Negative)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loans**	Sep-17	NA	Sep-24	200.0	[ICRA]BBB+ (Stable)

Source: Company

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.

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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