September 15, 2022

Saroj Landmark Realty LLP: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term Loans	120.00	[ICRA]BBB- (Stable); Assigned
Long-term – Unallocated Limits	30.00	[ICRA]BBB- (Stable); Assigned
Total	**150.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating factors in the Chandak Group's established project execution and delivery track record in the Mumbai Metropolitan Region (MMR), the favourable location of the Group's ongoing projects being developed by Saroj Landmark Realty LLP (SLRL) and Shreeraj Developer LLP (SDL), the healthy sales progress in these projects with adequate cash flow visibility and the prudent project funding mix.

Chandak Unicorn, the commercial property being developed by SLRL, is located at Andheri West, Mumbai and enjoys good connectivity to various parts of the city with easy accessibility to metro, suburban railway stations and international airport. Chandak Nishchay, the residential project being developed by SDL, is located in Dahisar, Mumbai. As of June, 2022, SLRL and SDL have sold about 87% of the aggregate launched area, which mitigates the market risk to a great extent. Out of the total estimated sales potential of Rs. 1,918 crore across the two projects, the Group achieved sales of Rs. 1,274 crore as on June 30, 2022. The receivables stood at Rs. 614 crore as on June 30, 2022. The cash flow adequacy[1], on a consolidated basis, stood at 89% as of June 2022. The regulatory risks for the ongoing projects are low as they are registered with the Real Estate Regulatory Authority (RERA) and all the necessary approvals are in place. Further, the track record of timely fund infusion by the promoters for business requirements provides funding support.

The rating is, however, constrained by the project execution risks with about 39% of the project cost pending to be incurred as on June 30, 2022, on a consolidated basis (Unicorn and Nishchay) and the moderate scale of operations, with high concentration on the MMR market. The Group remains exposed to the cyclicality inherent in the real estate sector for its ongoing projects and new launches.

ICRA takes note of the Group's projects, which are currently underway through a development management (DM) model, wherein the DM partners (entities of Chandak Group) have extended loans and advances to the entities developing the projects and provided corporate guarantees for the project borrowings. These projects have also reported healthy sales progress and adequate cash flow cover, mitigating the risks of funding support to be provided to these projects to some extent. Furthermore, the complete execution, funding and marketing functions are managed by the entities of Chandak Group acting as the DM partner.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the Group will maintain its business profile with healthy sales in the ongoing projects, while improving its collections and maintaining a conservative capital structure.

[1] *Cash flow adequacy is measured by the ratio of receivable from sold area to pending cost and debt outstanding*

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in real estate development – The partners have about four decades of experience in the real estate development and have completed several projects in Mumbai and Thane. The Chandak Group has a track record in affordable housing, commercial shops, offices and redevelopment of societies and slums through various Group entities. As of January 2022, the Group completed 28 projects delivering ~1.9 mn sq. ft. It is developing three residential projects and two commercial projects at present with a total development potential of ~1.6 mn sq. ft. under own, joint development agreement (JDA) and DM models.

Favourable location of Group's projects; healthy sales progress – The project locations (Andheri West for Unicorn and Dahisar for Nishchay) are favourable with good connectivity to rest of the city and key transit nodes. Nischay and Unicorn have sold 69% and 60%, respectively, of the saleable area as of June 2022. For Nishchay Phase I, it has reported healthy bookings with 99% units sold, while Phase II is yet to be launched (consolidated area sold is 69%).

Adequate cash flow visibility – The Group employs a prudent funding mix, with customer advances and promoter contributions accounting for a large portion of the project funding. The leverage at the project level is moderate. The debt outstanding as on June 30, 2022 was at around 60% of the net working capital deployed in these projects. At the consolidated level, the entire budgeted promoters' contributions for the projects were infused as of June 2022. Additionally, out of the total estimated sales potential of Rs. 1,918 crore across the two projects, the Group achieved Rs. 1,274 crore as on June 30, 2022. The receivables stood at Rs. 614 crore as on June 30, 2022. The cash flow adequacy, on a consolidated basis, remained comfortable at 89% as of June 2022.

Credit challenges

Project execution risks – On a consolidated basis, Unicorn and Nishchay (Phase I and II) have incurred only 61% of the budgeted cost as of June 2022, which leads to execution risk. However, the Phase II of project Nishchay is yet to be launched and Phase I witnessed 92% financial progress as of June 2022. The project Unicorn is at an intermediate stage with 55% financial progress as on June 30, 2022. The Group is exposed to market risks pertaining to the Phase II of the Nishchay project.

Susceptibility to cyclicality in real estate sector – The real estate sector in India is cyclical and highly fragmented. The Group remains exposed to the cyclicality inherent in the real estate sector as well as regulatory risks for the ongoing projects and future launches.

Risks arising due to current and future DM projects – SLRL is a DM partner in four of the Group's seven DM projects, wherein it has extended loans as well as advances to the entities developing the projects and provided corporate guarantee for their project borrowings. This exposes SLRL to risks arising in the form of contingent liabilities (corporate guarantee for the project loans) for the current as well as any future DM projects. Nonetheless, the current DM projects have reported healthy sales progress, with adequate cash flow cover and ICRA believes there will be minimal funding support to be provided to these projects.

Liquidity position: Adequate

On a consolidated basis (SLRL+SDL), as on June 30, 2022, the company had cash and bank balances of Rs. 24.4 crore (including DSRA balance of Rs. 6.21 crore) and the undrawn project loans stood at Rs. 10.00 crore. The receivables from the sold area, on a consolidated basis, were at Rs. 613.68 crore as on June 30, 2022 compared to pending cost and debt outstanding aggregating to Rs. 693.36 crore. SLRL has a debt repayment tenure of 42 months with 24 months moratorium, i.e. till January 2024. The debt is estimated to be adequately serviced through its operating cash flows. The repayment structure, however, will follow an escrow sweep mechanism linked to the collections.

Rating sensitivities

Positive factors – The rating may be upgraded if the company achieves sustained business growth and diversification through new project launches, while maintaining healthy sales traction and the leverage profile.

Negative factors – The rating could be downgraded in case of slowdown in sales or increase in leverage resulting in cash flow adequacy ratio weakening to below 60%. Higher-than-anticipated investments in DM projects or increased contingent liabilities arising from such transactions could also be a negative trigger.

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	Consolidated. For arriving at the rating, ICRA has considered the consolidated financial and operational profile of SLRL and SDL, as both are held by common partners and SDL has extended corporate guarantee for some of SLRL's debt facilities. Certain debt facilities in SDL and SLRL are from the same lender and cross-collateralised.

About the company

The Chandak Group is a real estate developer established in 1986 by the Late Mr. Shyamsunder G. Chandak. The Group is currently managed by his sons, Mr. Abhay Chandak and Mr. Aditya Chandak. Over the last three decades, the Group has executed and delivered 28 projects (residential and commercial) admeasuring a total carpet area of 19.68 lakh sq. ft. across Mumbai.

At present, the Group is executing eight projects (two own projects and five as a DM cum JDA partner/JV) with a saleable area of 23.71 lakh sq. ft. and has another four upcoming projects with a sales potential of 29.81 lakh sq. ft. Out of the ongoing projects, two projects admeasuring 1.33 lakh sq. ft. are at an advance stage of construction, while the rest are at mid stage.

Key financial indicators

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	161.4	4.5
PAT (Rs. crore)	9.8	7.3
OPBDIT/OI (%)	14.4%	411.3%
PAT/OI (%)	6.1%	159.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.2
Total Debt/OPBDIT (times)	1.3	1.8
Interest Coverage (times)	2.0	2.3

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
CRISIL Ratings Limited	CRISIL BB+ /Stable (ISSUER NOT COOPERATING), rating migrated	November 19, 2021

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 # (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Sept 15, 2022	-	-	-
1	Term Loans	Long-term	120.00	110.00	[ICRA]BBB- (Stable)	-	-	-
2	Unallocated Limits	Long-term	30.00	-	[ICRA]BBB- (Stable)			

 # as on June 30, 2022

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Unallocated Limits	Not Applicable

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-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	December 2021	-	FY2025*	120.00	**[ICRA]BBB- (Stable)**
NA	Unallocated Limits	-	-	-	30.00	**[ICRA]BBB- (Stable)**

**scheduled*
Source: Company

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Saroj Landmark Realty LLP	-*	Full Consolidation
Shreeraj Developer LLP	-*	Full Consolidation

** Both are Chandak Group companies*

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