

October 28, 2022

Abad Builders Private Limited: Rating Reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Overdraft	24.00	17.35	[ICRA]BB+(Stable) reaffirmed
Long-term loan	9.82	10.40	[ICRA]BB+(Stable) reaffirmed
Long-term- Unallocated limits	1.18	7.25	[ICRA]BB+(Stable) reaffirmed
Total	35.00	35.00	

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation factors in the established position of Abad Builders Private Limited (ABPL) and its promoters in the real-estate segment in Ernakulam, Kerala for more than 15 years with demonstrated project execution capabilities, as reflected through the completion of 3.9 million square feet (msft) area. Further, the company's sales velocity has been improved in the last 12 months on the back of new launches which has led to improvement in cashflow adequacy ratio from 15% in June 2021 to 38% in September 2022. The rating reaffirmation also favorably factors in the limited repayment obligations, which are likely to aid cashflows over the medium term.

The rating is, however, constrained by ABPL's modest scale of operations with sales of Rs. 22 crore in FY2022 and under-development area of 1.7 lakh sq ft and ABPL's exposure to market, execution and regulatory risks for ongoing as well as upcoming projects. The rating further factors in the vulnerability of its sales to any downturn in the real estate demand and stiff competition within the region from various established real estate developers especially considering that the operations remain geographically concentrated in the Ernakulam region entirely.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that ABPL will continue to generate adequate sales and will continue to derive benefit from its established position in the Ernakulam real-estate market.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the real-estate industry – Abad Group and its promoters have a long track record of more than 15 years in real estate development in Ernakulam, Kerala with presence mainly in the residential segment. It has developed more than 40 projects encompassing ~ 3.9 msft of constructed area.

Improvement in sales velocity and cash flow adequacy ratio- The Company's sales velocity has been improved in the last 12 months on the back of new launches which has led to improvement in cashflow adequacy ratio from 15% in June 2021 to 38% in September 2022.

Limited repayment obligations to aid cashflows over medium term – The debt outstanding as on March 31,2022 is Rs 25.78 crore, majority of the debt portion consists of OD's of around Rs 16 crore and there are three term loans with minimal repayment schedule of around Rs 1.24 crore in FY2023 and Rs 1.37 crore in FY2024. The limited repayment obligations are likely to aid cashflows over the medium term.

Credit challenges

Modest scale of operations – ABPL’s scale of operations remained modest over the last few years. The company achieved sales of ~Rs. 22 crore in FY2022 from its ongoing and completed projects. The company is executing two residential projects at present, encompassing ~1.7 lakh sft of total saleable area. Out of the two projects, Woodspark project is under initial stages with 17% of the total cost incurred and Inspirations project is in advanced stage with 75% of total cost incurred.

Exposure to marketing and execution risk – The company has two ongoing projects with a total saleable area of 0.17 msft and plans to launch three projects in the next one year with a total saleable area of 0.3 msft. The timely launch of the new projects would depend on the company’s ability to get approvals. Additionally, the company continues to remain exposed to marketing, regulatory and execution risks for the ongoing and completed projects

Exposure to inherent cyclicity in the real-estate industry– Being a cyclical industry, real estate is highly dependent on macro-economic factors, which render the company’s sales vulnerable to any downturn in real-estate demand. ABPL also faces stiff competition within the region from various established developers, especially considering that the operations remain geographically concentrated in the Ernakulam region

Liquidity position: Adequate

ABPL’s liquidity is expected to be adequate, backed by comfortable sales and collections over the medium term and as aided by the limited debt repayment. Further, the company derives certain financial flexibility from unsold finished inventory as well as unencumbered land bank. Also, improvement in sales momentum and the cashflow adequacy ratio is likely to underpin cashflows.

Rating sensitivities

Positive factors – ICRA could upgrade ABPL’s rating if there is a significant and sustainable improvement in the sales and collections, while maintaining a comfortable leverage and liquidity position

Negative factors – Pressure on the rating could emerge in case of significant decline in sales or collections, delays in project execution, or in case of a deterioration in the leverage or liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodologies for real-estate entities
Parent/group support	Not applicable
Consolidation/standalone	Standalone

About the company

ABPL was established in 2003 as the flagship company in the construction and real estate wing of the Abad Group, which is a renowned business house in Kerala with business interests in seafood exports, real estate, property management and maintenance services, hospitality and retail. The company’s day-to-day activities are managed by its Managing Director, Dr. Najeeb Zackeria.

Key financial indicators

ABPL Standalone	FY2021 (Audited)	FY2022 (provisional)^
Operating income (Rs. crore)	32.3	28.7
PAT (Rs. crore)	-17.3	-2.5
OPBDIT/OI (%)	-57.8%	-2.8%
PAT/OI (%)	-53.6%	-8.8%
Total outside liabilities/Tangible net worth (times)	2.6	2.6
Total debt/OPBDIT (times)	-2.6	-61.7
Interest coverage (times)	-5.0	-0.3

Prov. – Provisional; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

^FY2022 figures are provisional figures

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 March 31, 2022 (Rs. crore)	Date & Rating on	FY2022	FY2021	FY2020
					October 28, 2022	July 02, 2021	Feb 26, 2020	April 02, 2019
1	Overdraft	Long-term	17.35	15.76	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Term loans	Long-term	10.40	10.02	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3	Unallocated limits	Long-term	7.25	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Over draft	Simple
Long-term loan	Simple
Long-term-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 I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Overdraft	-	-	-	17.35	[ICRA]BB+ (Stable)
NA	Term loans	FY2021-FY2022	-	FY2026-FY2032	10.40	[ICRA]BB+ (Stable)
NA	Unallocated limits	-	-	-	7.25	[ICRA]BB+ (Stable)

Source: ABPL and ICRA

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

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