

December 22, 2023

Saroj Landmark Realty LLP: Rating reaffirmed

Summary of rating action

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

*Instrument details are provided in Annexure-I

Rationale

While arriving at the rating, ICRA has consolidated the financial and operational profile of Saroj Landmark LLP (SLRL) and Shreeraj Developers LLP (SDL), as both are held by common partners and SDL has extended corporate guarantee for some of SLRL's debt facilities.

The rating reaffirmation factors in the healthy sales and collections from its ongoing projects – Unicorn (undertaken by SLRL) and Nishchay (undertaken by SDL) projects, along with prepayment of its debt facilities leading to reduction in debt levels, which is expected to result in healthy leverage indicators. On a consolidated basis, ~95% area has been sold till September 2023 leading to healthy committed receivables of Rs. 395 crore. The projects have a pending cost of Rs. 188 crore and debt outstanding of Rs. 145 crore leading to healthy cash flow adequacy ratio of 119% as of September 2023. The collections have improved by ~20%, on a year-on-year (YoY) basis, to Rs. 320 crore in FY2023 and are estimated to improve further by about 45-50% in FY2024, which will be used for prepayment of term loan. The repayments are based on escrow sharing mechanism. With reduction in external debt as of March 2024 and adequate cash flow from operations, the leverage indicators are likely to remain healthy in FY2024. The rating continues to factor in the long and established track record of the Chandak Group in real estate development in MMR. The Group has delivered more than 6 million square feet (msf) of area over the past 4 decades comprising residential and commercial project over the past two decades.

The rating is, however, constrained by the moderate scale of operations, along with high geographical and project concentration risks due to dependence on two projects in Mumbai region. Further, SLRL is exposed to marketing and execution risks for phase-2 of Nishchay project, which is expected to be launched in Q2 FY2025. Moreover, being a cyclical industry, the residential real estate sector is highly dependent on macro-economic factors, which exposes its sales to any downturn in demand and competition within the region from various established developers.

ICRA takes note of the Group's projects under development management (DM) model, which have reported healthy sales progress and adequate cash flow cover, mitigating the risks of funding support to be provided to these projects to some extent.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's expectation that the credit profile will be supported by the Group's track record, healthy saleability and collections demonstrated in the ongoing projects, along with its comfortable leverage profile.

Key rating drivers and their description

Credit strengths

Favourable location of Group's project; healthy collections and sales progress – The projects are favourably located (Andheri West for Unicorn and Dahisar for Nishchay) with good connectivity to the rest of the city and key transit nodes. On a consolidated basis, around 95% area has been sold till September 2023 leading to healthy committed receivables of Rs. 395 crore. The projects have a pending cost of Rs. 188 crore and debt outstanding of Rs. 145 crore leading to healthy cash flow

adequacy ratio of 119% as of September 2023. The collections have improved by ~20% on YoY basis to Rs. 320 crore in FY2023 and are expected to improve further in FY2024.

Comfortable leverage indicators expected in FY2024 – The collections are estimated to improve by about 45-50% in FY2024 on YoY basis, which will be used for prepayment of term loan as repayments are based on escrow sharing mechanism. With reduction in external debt as of March 2024 and adequate cash flow from operations, the leverage indicators are expected to remain healthy in FY2024.

Extensive experience of promoters in real estate development – The partners have about 4 decades of experience in the real estate development and have completed several projects in Mumbai and Thane. The Chandak Group is currently being managed by Mr. Aditya Chandak and Mr. Abhay Chandak, who are the sons-in-laws of Mr. Radhakishan Damani, and has a track record in affordable housing, commercial shops, offices and redevelopment of societies and slums through various group entities. As of September 2023, the Group has completed around 29 projects delivering a total area of ~6.4 msf. The Group is currently developing around 9 projects having a total saleable area of around 3.8 msf under own project and joint development agreement (JDA).

Credit challenges

Exposure to residual execution and market risks – On a consolidated basis, Unicorn and Nishchay (phase-1) have incurred around 87% of the budgeted cost. Further, phase-2 of Nishchay project is yet to be launched, which exposes the firm to marketing and execution risks for the total saleable area of 2.0 Isf. The project is expected to be launched in Q2 FY2025. The Group has demonstrated healthy saleability for its ongoing projects, which mitigates the market risk to some extent.

Risks arising due to current and future DM projects – SLRL is a DM partner in four out of the Group's seven DM projects, wherein it has extended loans as well as advances worth Rs. 10.3 crore as of March 2023 to the entities developing the projects. Nonetheless, the current DM projects have reported healthy sales progress, with adequate cash flow cover. ICRA believes there will be minimal funding support to be provided for these projects.

Exposed to cyclical in real estate business – The residential real estate sector is cyclical in nature. It is marked by volatile prices and a highly fragmented market structure because of the presence of a large number of regional players. The sector is also dependent on macro-economic factors, which exposes its sales to any downturn in demand and competition within the region from various established developers.

Liquidity position: Adequate

On a consolidated basis (SLRL+SDL), as of November 2023, the firm had cash and bank balances of Rs. 35.5 crore (including DSRA balance of Rs. 7.9 crore). The undrawn project loans stood at Rs. 13.0 crore as of September 2023. The receivables from the sold area, on a consolidated basis, were at Rs. 395 crore as of September 2023 compared to pending cost and debt outstanding aggregating to Rs. 295 crore. The cash flow from operations is expected to be adequate to service the scheduled debt repayment obligations in FY2024 and FY2025. The repayments are linked to collection linked sweep mechanism.

Rating sensitivities

Positive factors – The rating may be upgraded if the firm achieves a significant and sustained increase in the scale of operations, along with business diversification through new project launches, while maintaining healthy leverage profile.

Negative factors – The pressure on the rating could arise in case of slowdown in sales or weakening of cash flow adequacy ratio to below 60%. Any significant increase in debt or investments in group companies or increased contingent liabilities arising from such transaction could be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Commercial/Residential/Retail
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the financial and operational profile of Saroj Landmark LLP (SLRL) and Shreeraj Developers LLP (SDL), as both are held by common partners and SDL has extended corporate guarantee for some of SLRL's debt facilities.

About the company

SLRL was incorporated in 2014 by Chandak Group, a Mumbai-based developer. It has developed 2 projects – Chandak Stella (Goregaon West) and Paloma (Goregaon East) both of which are fully complete and fully sold out. SLRL is developing an SRA-cum-commercial project Unicorn in Andheri West, Mumbai, which has a total saleable area of around 2.1 lsf area. Around 85% of the area in the project has been sold as of September 2023. The firm is a part of the Chandak Group, which is based out of Mumbai. The Group has executed and delivered 29 projects (residential and commercial) admeasuring carpet area of 19.7 lsf across Mumbai. At present, the Group is executing 9 projects with a saleable area of 30.7 lsf.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	2.9	265.0
PAT	14.3	25.4
OPBDIT/OI	1535.5%	21.1%
PAT/OI	488.3%	9.6%
Total outside liabilities/Tangible net worth (times)	2.2	4.1
Total debt/OPBDIT (times)	3.3	6.0
Interest coverage (times)	2.2	1.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, interest coverage ratio is calculated on OPBDIT.

Source: Company annual reports, ICRA Research

Status of non-cooperation with previous CRA

Consolidated	Status	Date of release
CRISIL Ratings Limited	CRISIL B/ Stable; (ISSUER NOT COOPERATING; Revised from 'CRISIL BB+/ Stable; ISSUER NOT COOPERATING')	January 17, 2023

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on September 30, 2023	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
				December 22, 2023	September 15, 2022	July 30, 2021	October 06, 2020	
1 Term loan	Long term	120.0	99.0	[ICRA] BBB-(Stable)	[ICRA] BBB-(Stable)	-	-	
2 Unallocated limits	Long term	30.0	-	[ICRA] BBB-(Stable)	[ICRA] BBB-(Stable)	-	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term loan	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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	December 2021	-	FY2025	120.0	[ICRA] BBB- (Stable)
NA	Unallocated Limits	-	-	-	30.0	[ICRA] BBB- (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company name	Ownership	Consolidation Approach
Saroj Landmark Realty LLP	-	Full Consolidation
Shreeraj Developers LLP	-	Full Consolidation

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