

June 30, 2022

Bestech India Private Limited: Ratings upgraded to [ICRA]BBB+ (Stable) and [ICRA]A2; Rated amount enhanced

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--|-----------------------------------|----------------------------------|--|
| Long-term - Fund based-Term Loans | 210.0 | 253.0 | [ICRA]BBB+ (Stable); rating upgraded from [ICRA]BBB (Stable) |
| Short-term - Non-fund Based-Working Capital Facilities | 80.00 | 80.0 | [ICRA]A2; rating upgraded from [ICRA]A3+ |
| Long-term – Unallocated | 135.0 | 97.0 | [ICRA]BBB+ (Stable); rating upgraded from [ICRA]BBB (Stable) |
| Total | 425.0 | 430.0 | |

*Instrument details are provided in Annexure-1

Rationale

The rating action factors in the improvement in Bestech India Private Limited's (BIPL) leverage position and significant execution progress in its projects, resulting in limited pending cost commitments in the near term. Two of the Group's largest projects are nearing completion and are expected to generate significant cash flow surplus in the near to medium term. The Group's external debt reduced to Rs. 253 crore as of March 2022 from Rs. 610 crore as of March 2019, while the pending costs in the ongoing projects stood at Rs. 139 crore as of March 2022. The ratings continue to favourably factor in the Bestech Group's established track record of more than two decades in the real estate industry, with demonstrated project execution capabilities and strong brand image. The company has a diversified product portfolio, with a healthy mix of commercial, retail and residential projects across Gurgaon and Mohali.

The ratings, however, are constrained by BIPL's relatively modest scale of operations with a standalone operating income (OI) of Rs. 408 crore (audited) and Rs. 285 crore in FY2021 and 9M FY2022, respectively, and a consolidated OI of Rs. 424 crore in FY2021. ICRA notes that the company is exposed to market risk for the completed, under-development as well as upcoming projects. High geographical concentration on projects in the intensely competitive New Gurgaon region further exacerbates the marketing risks. It has high concentration on two recently completed projects – Altura and Athena – which are expected to generate the majority of the sales and collections in the near to medium term. The Group has not reported significant sales from the under-construction projects, resulting in low visibility of customer advances and high dependence on sales from the completed projects. The receivables from the sold area stood at Rs. 136 crore as of March 2022, with pending construction outflow worth Rs. 139 crore. Additionally, it has external debt of Rs. 253 crore, which has resulted in a moderate cash flow adequacy ratio of 35% as of March 2022 (improved from 19% as of January 2021).

ICRA also notes the significant expansion plans of the Group companies for developing hospitality projects in sister concerns, which require funding support from BIPL. Any major funding support extended by BIPL to other Group companies and its impact on Group's cash flows and debt protection metrics would remain a rating sensitivity.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the Group will continue to benefit from its established track record and strong brand recall in the real estate space in Gurgaon, Mohali and Dharuhera, along with its moderate leverage position.

Key rating drivers and their description

Credit strengths

Long and established track record of promoters – The Bestech Group has an established track record of more than two decades in the real estate industry, with demonstrated project execution capabilities and a strong brand image. The company has a diversified product portfolio, with a healthy mix of commercial, retail and residential projects across Gurgaon and Mohali. It has completed more than 16 million square feet (msf) of development. At present, it is developing three residential and commercial projects, spanning 1.9 msf of area. ICRA notes the track record of fund infusion by the promoters whenever required.

Satisfactory execution and healthy visibility of cash surplus in medium term – The Group is expected to generate healthy cash surplus over the medium term primarily driven by the sale of unsold inventory in Altura and Athena projects, which are nearing completion and have significant inventory and minimal pending construction cost. Further, there is a healthy cash flow visibility as it has a number of launches planned over the next twelve months.

Moderate leverage – BIPL's debt position has improved with its external debt declining to Rs. 253 crore as of March 2022 from Rs. 286 crore as of March 2021. The external debt has significantly reduced in the recent past from Rs. 610 crore as of March 2019 and Rs. 441 crore as of March 2020, led by prepayment of debt from collections received against sales of the completed inventory. Further, it closed a loan worth Rs. 117 crore availed from Altico Capital India Ltd. (Altico) via land sale in FY2021, which also supported the debt reduction.

Credit challenges

Relatively moderate scale of operations – BIPL's scale of operations remained moderate with a standalone OI of Rs. 408 crore (audited) and Rs. 285 crore in FY2021 and 9M FY2022, respectively, and a consolidated OI of Rs. 424 crore in FY2021. A modest scale exposes the company to the risk of business downturn and impacts its ability to absorb business disruptions and exigencies.

Moderate cash flow adequacy ratio; BIPL remains reliant on new sales – The Group has not reported significant sales from the under-construction projects resulting in low visibility of customer advances and indicating high dependence on sales from the completed projects. The receivables from the sold area stood at Rs. 136 crore as of March 2022, with pending construction outflow worth Rs. 139 crore. Additionally, it has external debt of Rs. 253 crore, which resulted in a moderate cash flow adequacy ratio of 35% as of March 2022 (improved from 19% as of January 2021).

Funding risks due to significant expansion plans of the Group – The Group has significant expansion plans for developing hospitality projects, which require funding support. Hence, any major funding support extended by BIPL to other Group companies would remain a rating sensitivity.

Liquidity position: Adequate

BIPL's overall liquidity profile remains adequate, aided by comfortable cash balances of around Rs. 51.1 crore and undrawn lines of Rs. 38.3 crore as on March 31, 2022. Further, the unencumbered inventory, which is nearing completion spread across various projects, and a number of launches on fully-paid for and unencumbered land bank are likely to keep its operational cash flows adequate.

Rating sensitivities

Positive factors – The ratings may be upgraded if a significant improvement in scale of operations and increase in cash flows result in a considerable reduction in debt on a sustainable basis.

Negative factors – Negative pressure on the ratings could arise in case of moderation in cash flows, leading to higher-than-expected debt levels. Also, significant unbudgeted investments or support extended to other Group companies leading to considerable deterioration in the liquidity and leverage position may trigger a rating downgrade.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities Rating Approach - Consolidation |
| Parent/Group Support | Not applicable |
| Consolidation/Standalone | For arriving at the ratings, ICRA has taken a full consolidation of BIPL and its subsidiary, Globus Projects Private Limited (GPPL) which are involved in real estate operations. Additionally, limited consolidation has been done with Group's hospitality entities (including Bestech Hospitalities Private Limited, Bestech Hotels Private Limited, JOP Hotels Limited, Bestech Hotels and Resorts Private Limited, Babylon Buildwell Private Limited), given the expected funding support from BIPL to the hospitality entities. |

About the company

Bestech India Private Limited (BIPL) is part of the Bestech Group, which was founded by Mr. Dharmendra Bhandari and Mr. Sunil Satija in the early 1990s. The Group started as a construction contractor and has been in the construction business for over two decades. It has constructed over 16 msf of space for various real estate projects, including several residential and commercial projects in the National Capital Region (NCR) for developers like Unitech, MGF, etc. In 2001, the Group diversified into real estate business and incorporated BIPL. Over the years, the Bestech Group has developed more than 16 msf of residential and commercial projects in Gurgaon, Mohali and Dharuhera. At present, the company is developing 1.9 msf of area and has 0.6 msf of unsold completed inventory.

About Globus Projects Private Limited

Globus Projects Pvt Ltd (GPPL) is a Group company of BIPL, with the latter holding 78% of the shareholding in the former. GPPL owns and operates a retail mall (co-developed with BIPL) spread across 0.4 msf in Mohali that started operations from April 2019. Some portion of the mall has been sold out. The balance area stands at 0.26 msf, out of which 0.01 msf is being held by GPPL for sale.

Key financial indicators

| BIPL consolidated | FY2020 | FY2021 |
|--|---------|---------|
| | Audited | Audited |
| Operating Income (Rs. crore) | 336.5 | 423.8 |
| PAT (Rs. crore) | 47.9 | 39.0 |
| OPBDIT/OI (%) | 27.8% | 18.9% |
| PAT/ OI (%) | 14.2% | 9.2% |
| Total Outside Liabilities/Tangible Net Worth (times) | 3.0 | 2.5 |
| Total Debt/OPBDIT (times) | 6.5 | 5.6 |
| Interest Coverage (times) | 3.2 | 3.0 |

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| | Instrument | Type | Amount Rated (Rs. crore) | Current Rating (FY2023) | | Chronology of Rating History for the Past 3 Years | | | | |
|---|-----------------------|------------|--------------------------|---|-------------------------|---|-------------------------|--------------------|-------------------------|--------------------|
| | | | | Amount Outstanding as on March 31, 2022 (Rs. crore) | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 | | Date & Rating in FY2020 | |
| | | | | | June 30, 2022 | - | Mar 19, 2021 | Nov 25, 2020 | Dec 13, 2019 | Nov 29, 2019 |
| 1 | Term loans | Long-term | 253.00 | 253.0 | [ICRA]BBB+ (Stable) | - | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) |
| 2 | Non-fund Based Limits | Short-term | 80.00 | - | [ICRA]A2 | - | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3+ |
| 3 | Unallocated | Long-term | 97.00 | - | [ICRA]BBB+ (Stable) | - | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | - |

** as per the management*

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|--|----------------------|
| Long-term Fund-based – Term loan | Simple |
| Short term - Non-fund based-Working Capital Facilities | Very simple |
| Long- term- Unallocated | NA |

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 | Long-term Fund-based – Term loan 1 | FY2016 | - | FY2024 | 10.7 | [ICRA]BBB+ (Stable) |
| NA | Long-term Fund-based – Term loan 2 | FY2021 | - | FY2026 | 3.57 | [ICRA]BBB+ (Stable) |
| NA | Long-term Fund-based – Term loan 3 | FY2022 | - | FY2027 | 1.9 | [ICRA]BBB+ (Stable) |
| NA | Long-term Fund-based – Term loan 4 | FY2017 | - | FY2023 | 2.85 | [ICRA]BBB+ (Stable) |
| NA | Long-term Fund-based – Term loan 5 | FY2021 | - | FY2026 | 3.16 | [ICRA]BBB+ (Stable) |
| NA | Long-term Fund-based – Term loan 6 | FY2021 | - | FY2026 | 24.9 | [ICRA]BBB+ (Stable) |
| NA | Long-term Fund-based – Term loan 7 | FY2020 | - | FY2025 | 9.38 | [ICRA]BBB+ (Stable) |
| NA | Long-term Fund-based – Term loan 8 | FY2021 | - | FY2026 | 16 | [ICRA]BBB+ (Stable) |
| NA | Long-term Fund-based – Term loan 9 | FY2021 | - | FY2023 | 40.8 | [ICRA]BBB+ (Stable) |
| NA | Long-term Fund-based – Term loan 10 | FY2020 | - | FY2032 | 47.38 | [ICRA]BBB+ (Stable) |
| NA | Long-term Fund-based – Term loan 11 | FY2020 | - | FY2025 | 32.5 | [ICRA]BBB+ (Stable) |
| NA | Long-term Fund-based – Term loan 12 | FY2022 | - | FY2027 | 32.5 | [ICRA]BBB+ (Stable) |
| NA | Long-term Fund-based – Term loan 13 | FY2020 | - | FY2024 | 20.0 | [ICRA]BBB+ (Stable) |
| NA | Long-term Fund-based – Term loan 14 | FY2021 | - | FY2026 | 7.27 | [ICRA]BBB+ (Stable) |
| NA | Short term - Non-fund based-Working Capital Facilities | - | - | - | 80.00 | [ICRA]A2 |
| NA | Long- term- Unallocated | - | - | - | 97.00 | [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 | BIPL Ownership | Consolidation Approach |
|--|----------------|------------------------|
| Bestech India Private Limited | - | Full Consolidation |
| Globus Projects Private Limited | 77.89% | Full Consolidation |
| Bestech Hospitalities Private Limited | - | Limited Consolidated |
| Bestech Hotels Private Limited | - | Limited Consolidated |
| JOP Hotels Limited | - | Limited Consolidated |
| Bestech Hotels and Resorts Private Limited | - | Limited Consolidated |
| Babylon Buildwell Private Limited | - | Limited Consolidated |

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