

December 30, 2022

## Signature Global (India) Private Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loans	30.0	30.0	[ICRA]BBB (Stable); rating reaffirmed
<b>Total</b>	<b>30.0</b>	<b>30.0</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating reaffirmation takes into account the healthy sales velocity of the Signature Group's<sup>1</sup> projects in FY2022 and H1FY2023 on the back of good response to the company's new project launches: the Group sold 5.46 million square feet (msf) area with value of Rs. 2590 crore in FY2022 and 1.84 msf area with value of Rs. 1330 crore in H1FY2023; the group sold 77% of the area in its ongoing projects as on September 30, 2022. Further, the Group has healthy cashflow adequacy<sup>2</sup> cover of around 68% as on September 30, 2022.

The rating continues to derive comfort from the established track record of the Signature Group in the NCR real estate sector, particularly in the affordable housing segment. The Group is currently developing 29 projects with a total saleable area of 16.8 (msf). The rating also derives comfort from the Group's low cost land bank, which provides strong visibility of launches.

Nonetheless, the rating is constrained by continued operating losses in the last three years- resulting in networth erosion. The company follows completed contract method wherein revenues get recognised on offer of possession while the current overheads are aligned with the strong growth it has been witnessing in scale which has led to under absorption of overheads on the reported revenue base. Further, due to its presence in the affordable housing segment, the gross margins are relatively low; thus, maintaining adequate scale of operations are critical to improve the operating margins. The Group's net leverage increased in last one year due to debt funded land acquisition. Further, the repayments over the next two years are sizeable at Rs. 361 crore in FY2024, and Rs. 378 crore in FY2025 thereby exposing it to refinancing risks. Although the company's net debt has increased due to debt funded land acquisition, the Net Debt/Cash flow from operations remains comfortable, and is expected to be at 2.0 times in FY2023. The rating is also constrained by the high reliance on customer advances for meeting the expenses of the ongoing projects, which exposes the Group to market and funding risks. Being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which in turn render the company's sales vulnerable to any downturn in demand. Additionally, high dependence on the Gurgaon real estate market exposes the sales to any region-specific downturn in demand.

The company has received approval from SEBI for its proposed Initial Public Offering (IPO) on November 24, 2022. The company proposes to raise upto Rs. 1000 crore through the IPO out of which upto Rs. 750 crore is proposed to be the primary offer. Part of the IPO proceeds are expected to be deployed towards debt reduction which could improve the company's capital structure; ICRA will re-evaluate the credit profile of Signature Global Group upon successful completion of the IPO.

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 Gurgaon real estate market, healthy cash flow adequacy ratio, and its large land bank.

<sup>1</sup> For arriving at Signature Global (India) Private Limited's (SGIPL) ratings, ICRA has taken a consolidated view of SGIPL and its subsidiary – Sternal Buildcon Private Limited given the close business, financial and managerial linkages among the entities. Please refer to analytical approach and Annexure 2 for list of entities.

<sup>2</sup> Cashflow adequacy ratio = Committed receivables/ (Total net debt outstanding + Total pending cost).

## Key rating drivers and their description

### Credit strengths

**Established brand name in the Affordable Housing segment in NCR** – The Signature Global Group forayed into real estate business in 2013 with a focus on AHPs. It has strong brand presence in the AHP segment in NCR. The Group possesses over nine years of experience in the realty sector and has successfully developed seven AHPs. The Group is currently developing 29 projects in cities of Gurgaon, Sohna and Karnal, in Haryana, with a total saleable area of 16.8 msf. As on September 30, 2022, the Group has sold 13.0 msf, representing 77% of the total saleable area

**Healthy sales velocity witnessed in FY2022 and H1FY2023** – The rating factors in the healthy sales velocity of the Group's projects in FY2022 and H1FY2023 on the back of good response to the company's new project launches: the Group sold 5.46 million square feet (msf) area with value of Rs. 2590 crore in FY2022 and 1.84 msf area with value of Rs. 1330 crore in H1FY2023; the group sold 77% of the area in its ongoing projects as on September 30, 2022.

**Healthy cash flow adequacy ratio** – The Group has healthy cashflow adequacy<sup>3</sup> cover of around 68% as on September 30, 2022.

### Credit challenges

**Increase in debt and sizeable repayments during next two years** – The Group's net debt increased, from Rs. 544 crore as on June 30, 2021 to Rs. 1010 crore as on September 30, 2022 due to debt funded land acquisition. Further, the repayments over the next two years are sizeable at Rs. 361 crore in FY2024, and Rs. 378 crore in FY2025 thereby exposing it to refinancing risks. Although the company's net debt has increased due to debt funded land acquisition, the Net Debt/Cash flow from operations remains comfortable, and is expected to be at 2.0 times in FY2023.

**Operating losses during last three years** – The rating is constrained by continued operating losses in the last three years- resulting in networth erosion. The company follows completed contract method wherein revenues get recognised on offer of possession while the current overheads are aligned with the strong growth it has been witnessing in scale which has led to under absorption of overheads on the reported revenue base. Further, due to its presence in the affordable housing segment, the gross margins are relatively low; thus, maintaining adequate scale of operations are critical to improve the operating margins.

**Exposure to execution and marketing risks, and cyclicity in real estate sector** – The rating is also constrained by the high reliance on customer advances for meeting the expenses of the ongoing projects, which exposes the Group to market and funding risks. Being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which in turn render the company's sales vulnerable to any downturn in demand. Additionally, high dependence on the Gurgaon real estate market exposes the sales to any region-specific downturn in demand.

### Liquidity position: Adequate

The Group's liquidity position is adequate. The Group's free cash and equivalents stood at Rs. 273 crore, and undrawn bank limits at Rs. 134 crore as on September 30, 2022, providing liquidity buffer. Although repayments are elevated over the medium term, ICRA expects the Group's cashflow from operations to remain adequate to meet its debt servicing obligations.

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<sup>3</sup> Cashflow adequacy ratio = Committed receivables/ (Total net debt outstanding + Total pending cost).

## Rating sensitivities

**Positive factors** – ICRA could upgrade the rating in case there is a significant and sustainable improvement in the company’s profitability, while maintaining current sales momentum, and significant reduction in the consolidated net leverage position on a sustained basis.

**Negative factors** – Pressure on the rating could emerge in case of significant decline in sales and collections; delays in project execution, or significant debt-funded land investments, leading to deterioration in the liquidity or capital structure at a consolidated level. Further, drop in cash flow adequacy ratio below 50%, on a prolonged basis, will be a negative trigger.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Real Estate Entities</a> <a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Approach - Consolidation</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has taken a consolidated view of Signature Global (India) Private Limited (SGIPL) and Sternal Buildcon Private Limited given the close business, financial and managerial linkages among them. List of entities considered for consolidation are provided in Annexure 2.

## About the company

Signature Global (India) Private Limited (SGIPL), incorporated in 2000, is a holding company of the Gurgaon-based Signature Global (SG) Group, which forayed into real estate business in 2013 with a focus on affordable housing projects. The Group, at present, has a strong focus on Gurgaon and Sohna market. In the recent past, the SG Group has increased focus on launch of projects under DDJAY scheme due to attractive product proposition. The Group has completed development of eight residential real estate projects comprising around 3.8 msf of area and is currently developing 29 residential real estate projects (comprising around 16.8 msf of area) in Gurgaon and Karnal (Haryana), with eight projects being developed through SGIPL and others through different SPVs. Moreover, the Group has strong brand presence in the AHP segment in Gurgaon and Karnal (Haryana).

## Key financial indicators

SGIPL consolidated	FY2021	FY2022
	Audited	Audited
Operating income (OI) (Rs. crore)	82.41	901.59
PAT (Rs. crore)	-86.25	-115.50
OPBDIT/OI (%)	-96.90%	-7.56%
PAT/ OI (%)	-104.65%	-12.81%
Total outside liabilities/Tangible net worth (times)	-19.72	-13.46
Total debt/OPBDIT (times)	-14.86	-17.15
Interest coverage (times)	-1.12	-0.98

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

Source: Group consolidated financials

**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 of September 2022*	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				December 30, 2022	September 10, 2021	August 19, 2021	-
<b>1</b> Term loans	Long-Term	30.0	7.43	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-

\* as per the management

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term - 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: [Click Here](#)

**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	January 4, 2021	-	FY2024	15.0	[ICRA]BBB (Stable)
NA	Long-term Fund-based – Term loan 2	January 4, 2021	-	FY2024	15.0	[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	SGIPL Ownership	Consolidation Approach
Signature Global (India) Private Limited (Holding company)	-	Full Consolidation
Signature Builders Private Limited (Subsidiary)	100%	Full Consolidation
Signatureglobal Developers Private Limited (Subsidiary)	100%	Full Consolidation
JMK Holdings Private Limited (Subsidiary)	100%	Full Consolidation
Signature Infrabuild Private Limited (Subsidiary)	100%	Full Consolidation
Fantabulas Town Developers Private Limited (Subsidiary)	100%	Full Consolidation
Maa-Vaishno Net-tech Private Limited (Subsidiary)	100%	Full Consolidation
Indeed Fincap Private Limited (Subsidiary)	63.68%	Full Consolidation
Sternal Buildcon Private Limited (Subsidiary)	100%	Full Consolidation
Forever Buildtech Private Limited (Subsidiary)	100%	Full Consolidation
Rose Building Solutions Private Limited (Subsidiary)	100%	Full Consolidation
Signatureglobal Homes Private Limited (Subsidiary)	100%	Full Consolidation
Signatureglobal Business Park Private Limited (Subsidiary)	100%	Full Consolidation

Source: Company

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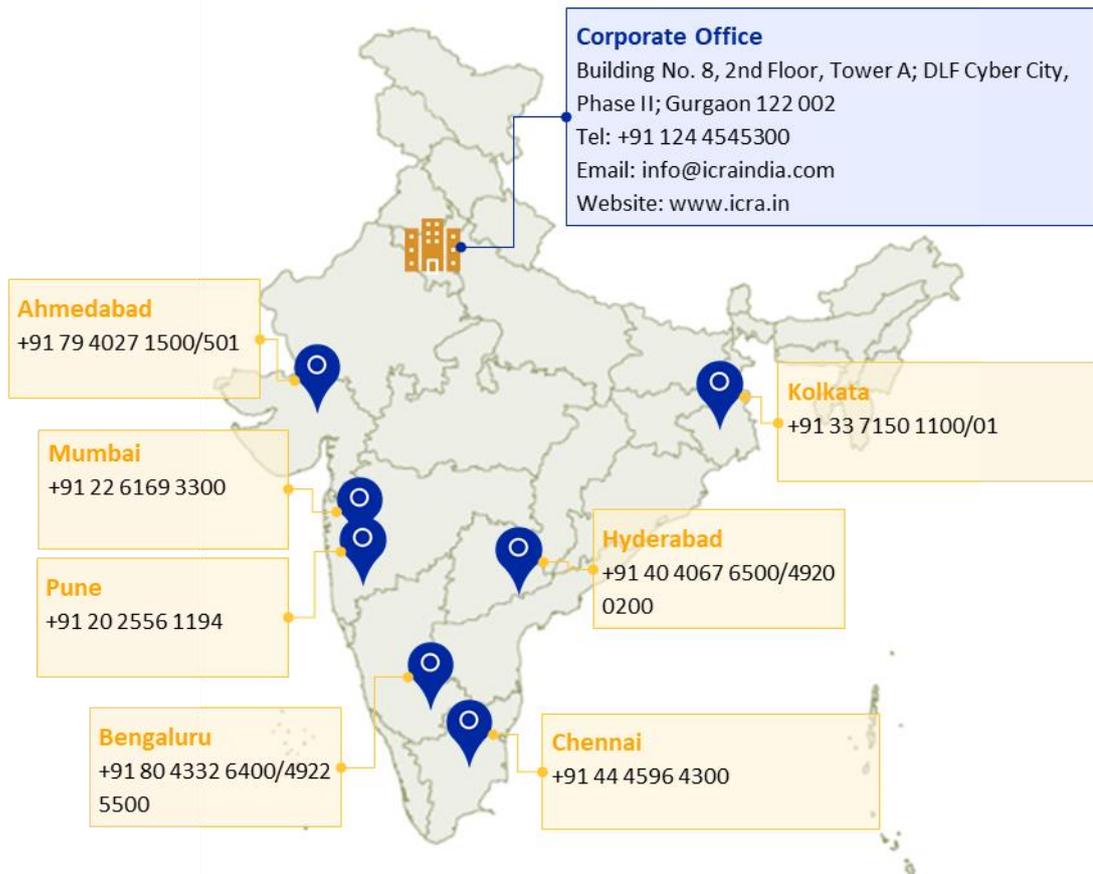
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