November 03, 2023

Ajay Enterprises Private Limited: Rating reaffirmed; 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 Loan	135.0	180.0	[ICRA] BBB+ (Stable); ratings reaffirmed/ assigned for enhanced limits
Long term – Fund based – Cash Credit	30.0	15.0	[ICRA] BBB+ (Stable); ratings reaffirmed
Short term Non-fund based	10.0	10.0	[ICRA] A3+; ratings reaffirmed
Long term – Fund based – WCTL	9.5	9.5	[ICRA] BBB+ (Stable); ratings reaffirmed
Total	**184.50**	**214.50**	

**Instrument details are provided in Annexure-I*

Rationale

The rating of Ajay Enterprises Private Limited (AEPL) factors in the healthy collections from ongoing residential projects, commencement of rentals from commercial asset and sustenance of low external debt levels expected to result in comfortable debt protection metrics. AEPL has sold 3.1 lakh square feet (lsf) of area resulting in sales value of Rs. 198 crore during the last 12 months ending August 2023 driven by healthy sales velocity from ongoing projects Edenwood and Sampoornam-2. This has resulted in a strong build-up of committed receivables, which along with low pending cost has led to healthy cash flow adequacy ratio[1] of 84% as of August 2023 (75% as of March 2022). AEPL's collections increased by 21% to Rs. 131 crores in FY2023, which is expected to largely sustain at similar levels in FY2024. AEPL's commercial asset, Vishal Cinemas, is operational from March 2023 and occupancy improved to 95% as of August 2023 (74% as of March 2022) and the rentals have commenced from April 2023 onwards. The company has converted the construction finance loan for the re-development of the property into LRD debt in March 2023. The leverage and debt coverage metrics are expected to be comfortable backed by adequate cash flow from operations and low external debt leading to DSCR in the range of 1.8-2.0 times and External Debt/CFO in the range of 1.2-1.5 times in FY2024.

The ratings continue to factor in the long and established track record in real estate development with demonstrated project execution capabilities, the strength derived by the company being a part of Eros Group and the extensive experience of its promoters in the real estate industry in National Capital Region (NCR). The rating further factors in the demonstrated track record of financial support from the promoters through infusion of unsecured loans and fully paid-up unencumbered land bank in Delhi NCR region.

The rating is, however, constrained by AEPL's modest scale of operations, and its exposure to execution risks associated with the three ongoing residential projects— Sampoornam 1 and 2 (Greater Noida, Uttar Pradesh) and Edenwood (Faridabad, Haryana) with ~35% of the total cost yet to be incurred. Furthermore, AEPL has a considerable unsold inventory in its completed projects amounting to Rs. 288 crores exposing the company to marketing risk for the unsold inventory. Moreover, 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 and competition within the region from various established developers.

[1] *Cash flow adequacy ratio = Committed receivables/ (Pending cost + Residential debt outstanding)*

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that AEPL will continue to benefit from its long and established track record, its healthy cashflow adequacy ratio, strong leasing of its commercial asset and low external debt levels.

Key rating drivers and their description

Credit strengths

Extensive experience and demonstrated track record of financial support from promoters – AEPL derives strength as a part of the Eros Group. The promoters have extensive experience in the real estate business in the Delhi-NCR region and have demonstrated their willingness to provide financial support by way of unsecured loans, interest payouts, and other inter-Group transactions. However, in FY2023 there were no such transactions or pay-outs and going forward the company will be using its own cash flows/sanctioned debt to fund the construction cost.

Healthy cash flow adequacy for ongoing residential projects; commencement of rentals for commercial asset in April 2023 – AEPL has witnessed healthy sales velocity in its ongoing projects as it sold 3.1 lsf of area resulting in sales value of Rs. 198 crores during the last 12 months ending August 2023 driven by healthy sales velocity from ongoing projects Edenwood and Sampoornam-2. This has resulted in a strong build-up of committed receivables, which along with low pending cost has led to healthy cash flow adequacy ratio of 84% as of August 2023 (75% as of March 2022). AEPL's collections increased by 21% to Rs. 131 crores in FY2023, which is expected to largely sustain at similar levels in FY2024. AEPL's commercial asset, Vishal Cinemas, is operational from March 2023 and the occupancy improved to 95% as of August 2023 (74% as of March 2022) and the rentals have commenced from April 2023 onwards.

Comfortable debt protection metrics expected in FY2024 – The company currently has low external debt levels and majority of the projects have been funded through internal accruals and promoters' contribution. The total external debt stood at Rs 92.5 crore (Rs 45 crore of LRD debt and Rs 47.5 crore of term debt) as of August 2023. The leverage and debt coverage metrics are expected to be comfortable backed by adequate cash flow from operations and low external debt leading to DSCR in the range of 1.8-2.0 times and External Debt/CFO in the range of 1.2-1.5 times in FY2024.

Credit challenges

Modest scale of operations – The company's scale of operations remains modest with [Sampoornam 1, 2 (Greater Noida, Uttar Pradesh) and Edenwood (Faridabad, Haryana)] ongoing residential projects. Its profitability remains low given the increase in the commodity prices leading to increase in project cost, thus leading to lower profitability in the projects. In FY2023, the company registered increase in net loss of Rs. 19.8 crore from Rs 7 crore in FY2022 mainly on account of increase in commodity prices leading to increase in project cost, however, the company is expecting to report profit for FY2024.

Marketing risks for unsold inventory and exposure to execution risks for ongoing projects – Going forward, the company's exposure to marketing risks remains high due to an unsold area of 6.5 lac sqft (including 4.6 lac sqft of inventory in completed projects). The ongoing projects entail a total expenditure of around Rs. 191 crore and are to be funded by customer advances. As of August 2023, around 65% of the total cost has been incurred, up from 47% as of March 2022.

Exposure to risk and cyclicality in real estate sector – The real estate sector is cyclical in nature and is highly dependent on macro-economic factors, which in turn render the company's sales vulnerable to any downturn in demand and competition within the region from various established developers.

Liquidity position: Adequate

The company's liquidity position is expected to remain adequate, supported by undrawn bank limits aggregating to around Rs. 112 crore (including Rs. 15 crore of overdraft limit) as of August 2023. Further, the company has principal repayments of Rs 2.1 crore in FY2024 and Rs. 26 crore in FY2025 which are expected to be adequately met through the cashflow from operations.

Rating sensitivities

Positive Factor: Significant and sustainable increase in the scale of operations and profitability, along with improvement in the leverage metrics would result in a rating upgrade.

Negative Factor: Negative pressure on the ratings could arise in case of pressure on bookings and collections or decline in rentals from Vishal cinemas or significant increase in indebtedness resulting in moderation in AEPL's leverage and coverage indicators.

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	Standalone

About the company

Ajay Enterprises Private Limited (AEPL) is a part of the Delhi-based Eros Group promoted by Mr. Ajay Sood and Mr. Raman Sood. The Group's other key entities include Hotel Excelsior Limited [rated [ICRA]A (Negative)] and Nehru Place Hotels and Real Estate Private Ltd. [rated [ICRA]A+(Stable)]. AEPL is a real estate development company with presence in commercial and residential real estate. The company has already completed development of more than 30 lsf of area and is currently developing around 10.6 lsf of residential project i.e., Sampoornam 1 and 2, in Greater Noida, and Edenwood, in Faridabad. The company has also re-developed Vishal Cinemas which has a leasable area of around ~71,000 sq ft.

Key financial indicators (audited)

AEPL Standalone	FY2022	FY2023
Operating income	100.2	183.0
PAT	-7.0	-19.8
OPBDIT/OI	4.9%	-6.2%
PAT/OI	-7.0%	-10.8%
Total outside liabilities/Tangible net worth (times)	2.2	2.7
Total debt/OPBDIT (times)	37.7	- 18.7
Interest coverage (times)	0.4	- 1.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, interest coverage ratio is calculated on OPBIDT.
Source: Company annual reports, ICRA Research

Status of non-cooperation with previous CRA: None

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 August 31, 2023	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	
					November 03, 2023	October 21, 2022	November 22, 2021	September 24, 2021	September 21, 2020	July 31, 2020
1	**Fund Based Term Loan**	Long term	180.0	83.0	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)
2	**Fund Based Cash Credit**	Long term	15.0	0.0	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)
3	**Non fund based limits**	Short term	10.0	7.2	[ICRA] A3+	[ICRA] A3+	[ICRA] A3+	[ICRA] A3+	[ICRA] A3+	[ICRA] A3+
4	**Unallocated**	Long term	0.0	-	-	-	-	[ICRA] BBB+ (Stable)	-	-
5	**Fund based WCTL**	Long term	9.5	9.5	[ICRA] BBB+ (Stable)	[ICRA] BBB+ (Stable)	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based – Term loan	Simple
Fund based – Cash credit	Simple
Non-fund based limits	Very simple
Fund based - WCTL	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	Mar 2023	9.25%	Mar 2038	80.0	[ICRA] BBB+ (Stable)
NA	WCTL	Nov 2021	9.25%	Dec 2026	9.5	[ICRA] BBB+ (Stable)
NA	Term Loan 2	Oct 2021	12.15%	Mar 2028	100.0	[ICRA] BBB+ (Stable)
NA	Cash Credit	NA	NA	NA	15.0	[ICRA] BBB+ (Stable)
NA	LC/BG	NA	NA	NA	10.0	[ICRA] A3+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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