

January 16, 2024

Abad Builders 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 – Overdraft	17.35	17.35	[ICRA]BB+(Stable); reaffirmed
Long-term – Fund-based – Term loan	10.40	16.40	[ICRA]BB+(Stable); reaffirmed
Long-term – Unallocated	7.25	1.25	[ICRA]BB+(Stable); reaffirmed
Total	35.00	35.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for the bank facilities of Abad Builders Private Limited (ABPL) factors in the expected improvement in its sales and collections in FY2024, driven by new project launches and the recent completion of two of its earlier ongoing projects. ABPL has launched two projects with saleable area of 1.8 lakh square feet and acquired one ongoing project in FY2023 and H1 FY2024. The area sold from these launches, along with sales in other ongoing projects supported an increase in sales in FY2023 by 26% to Rs. 27.6 crore. The same is estimated to grow to around Rs. 60-65 crore in FY2024. Consequently, the collections from sales improved to Rs. 38.3 crore in FY2023 (PY: Rs. 22.4 crore) and are likely to increase to around Rs. 52-55 crore in FY2024. The rating factors in the established position of the company and its promoters in the real estate segment in Kerala for more than twenty years with demonstrated project execution capabilities, reflected through completion of ~4 million square feet of area (as of September 2023).

The rating is constrained by ABPL's modest scale of operations with area under development of ~4.3 lakh square feet and its exposure to execution, market and funding risks associated with the ongoing projects. Further, the cash flow adequacy ratio, [committed receivables/(external debt outstanding + pending cost)] is moderate at 29% as of September 2023 (38% as of September 2022). Notwithstanding the improvement in collections, the cash flow from operations remains modest resulting in high leverage. ABPL has significant unsold inventory in its completed projects amounting to ~Rs. 180 crore exposing the company to market 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. The rating factors in the stiff competition within the region from various other developers, especially considering that the operations are mostly concentrated in the Ernakulam region.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will 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

Improvement in sales and collections – ABPL's sales and collections are expected to improve in FY2024, driven by new project launches and recent completion of two of its earlier ongoing projects. It has launched two projects with a saleable area of 1.8 lakh square feet and acquired one ongoing project in FY2023 and H1 FY2024. The area sold from these launches, along with sales in other ongoing projects supported an increase in sales in FY2023 by 26% to Rs. 27.6 crore and is estimated to grow to around Rs. 60-65 crore in FY2024. Consequently, the collections from sales improved to Rs. 38.3 crore in FY2023 (PY: Rs. 22.4 crore) and likely to increase to around Rs. 52-55 crore in FY2024.

Extensive experience of promoters in real estate industry with demonstrated project execution capabilities – ABPL is a part of the Abad Group. The promoters have extensive experience in the real estate segment in Kerala for more than twenty years with demonstrated project execution capabilities, reflected through completion of ~4 million square feet of area (as of September 2023).

Credit challenges

Modest scale of operations and high leverage – The rating is constrained by ABPL’s modest scale of operations with area under development of ~4.3 lakh square feet as of September 2023. Further, despite improvement in collections, the cash flow from operations remains modest resulting in high leverage measured by external debt/cash flow from operations of 17.5 times in FY2023. The same is expected to be around 6.1 times in FY2024.

Exposure to execution, market and funding risks; moderate cash flow adequacy ratio – As of September 2023, 53.4% of cost is to be incurred, which exposes the company to execution and funding risks associated with the ongoing projects. With a significant unsold inventory in its completed projects amounting to ~Rs. 180 crore, ABPL is exposed to market risk for the unsold inventory. Moreover, the cash flow adequacy ratio (ratio of receivables from the sold area to the pending cost and external debt outstanding) moderated to 29% as of September 2023 from 38% as of September 2022.

Exposure to cyclical in real estate sector – Being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which exposes the company’s sales to any downturn in demand. The rating factors in the stiff competition within the region from various other developers, especially considering that operations are mostly concentrated in the Ernakulam region.

Liquidity position: Adequate

The company’s liquidity remains adequate. ABPL has limited debt repayments of Rs. 2.9 crore in FY2024 and Rs. 5.7 crore in FY2025, which are expected to be adequately met from its cash flow from operations. It is dependent on customer advances to meet the pending cost for its ongoing projects, which is expected to be supported from the estimated improvement in sales velocity.

Rating sensitivities

Positive factors – ICRA could upgrade ABPL’s rating if there is a significant and sustainable improvement in the sales and collections, along with improvement in 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 Realty - Commercial/Residential/Retail
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Abad Builders Private Limited (ABPL) was established in 2003 as the flagship company in the construction and real estate wing of the Abad Group. The company has, over the years, executed over 40 projects with a total area of ~ 4 million square feet. It is a well-recognised player in the residential real estate market in Kerala. ABPL is a part of the Abad Group, 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 (audited)

ABPL Standalone	FY2022	FY2023
Operating income	31.0	25.2
PAT	(3.0)	0.2
OPBDIT/OI	-5.4%	21.8%
PAT/OI	-9.6%	0.8%
Total outside liabilities/Tangible net worth (times)	2.9	4.0
Total debt/OPBDIT (times)	(28.2)	11.2
Interest coverage (times)	(0.5)	1.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: Company annual reports, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jan 16, 2024	Oct 28, 2022	Jul 02, 2021	-
1 Overdraft	Long-term	17.35	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-
2 Term loans	Long-term	16.40	14.83	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-
3 Unallocated limits	Long-term	1.25	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Overdraft	Simple
Long-term – Fund-based – Term loan	Simple
Long-term – Unallocated	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	Overdraft	-	-	-	17.35	[ICRA]BB+(Stable)
NA	Term loans	FY2021-FY2022	-	FY2026-FY2032	16.40	[ICRA]BB+(Stable)
NA	Unallocated limits	-	-	-	1.25	[ICRA]BB+(Stable)

Source: Company

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

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