

February 09, 2024

Suvarna Durga Constructions: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	64.00	[ICRA]BB- (Stable); assigned
Total	64.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating for Suvarna Durga Constructions (SDC) factors in the favourable location of the ongoing commercial project 'Centrum' in Kokapet, Hyderabad, a fast developing residential and commercial area, which enhances the marketability of the project. The company is constructing a multi-storied commercial building, named Centrum, with a total saleable area of 4,44,362 square feet (sft). The total project cost (including land) is estimated at Rs. 158.45 crore, which will be funded by a term loan of Rs. 64 crore, equity of Rs. 58.5 crore and the remaining Rs. 35.95 crore through unsecured loans from promoters. The debt-tie up is in place and around ~70% of promoter contribution has been infused in the project till December 2023. ICRA notes that the promoters have the ability to infuse the balance equity/unsecured loans, in a timely manner, to support project execution. The rating derives comfort from long experience of promoters in diverse industries (bottling, agro-products, paper and real estate).

The rating is, however, constrained by the company's exposure to moderate execution risk as ~57% of the construction cost has been incurred as on December 31, 2023. The project is expected to be completed in H2 FY2025. The project is exposed to significant market risk as there are no sales yet. While the project execution is being met through debt and equity/unsecured loans from promoters with limited dependence on advances from customer, timely sales remain critical for debt servicing obligations due in FY2026 and will remain a key monitorable. Besides, the rating is constrained by the high risks related to cyclical in the Indian real estate industry, which could impact the sales as well as profitability of the entity.

The Stable outlook reflects ICRA's opinion that the company would benefit from the location-specific advantage of the project, leading to healthy bookings and collections and low funding risk.

Key rating drivers and their description

Credit strengths

Favourable location of ongoing project – The ongoing commercial project – Centrum – is located in Kokapet, Hyderabad. This is a fast developing residential and commercial area and has all the infrastructural facilities for a commercial hub, which enhances the marketability of the project.

Experience of promoters in diverse industries – Suvarna Durga Group was established in 1997. At present, the Group is operating in four segments: bottling, agro-products, paper and real estate business. The promoters have an extensive experience of over a decade in all these industries. The Group has completed two residential projects and three office projects on sale model till date.

Credit challenges

Exposure to project execution and market risks – The project is exposed to moderate execution risk as only ~57% of the construction cost has been incurred as on December 31, 2023, and is expected to be completed by H2 FY2025. The project is also exposed to significant market risk since there are no sales tie-ups yet. Although there is no dependence on customer advances for project execution, timely ramp-up in sales remain critical for future debt servicing of the company.

Exposure to inherent cyclicality in real estate sector – The real estate sector is cyclical and marked by volatile prices and a highly fragmented market structure because of a large number of regional players. In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which makes 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 adequate as the debt funding is tied up and around 70% of promoter contribution (including unsecured loan) is already infused for the project. The balance is expected to be infused in a timely manner. It has nil debt repayment obligations till March 2025.

Rating sensitivities

Positive factors – The rating may be upgraded in case of healthy bookings and collections leading to improved cash flow from operations and debt protection metrics on a sustained basis.

Negative factors – Downward pressure on the rating could arise if there are cost overrun or unforeseen delay in project completion. Further, considerable delay in bookings leading to subdued collections may lead to a rating downgrade.

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

Suvarna Durga Constructions was incorporated in 2021. It is a group company of Suvarnadurga Group of Companies, which is promoted by Mr. Jakkireddy Srinivasa Reddy and Mrs. Jakkireddy Gowthami Reddy. Currently, the company is constructing a multi-storied commercial building, named Centrum, at Kokapet, in Hyderabad, with a total saleable area of 4,44,362 sft spread over 22 floors (4 basement floors+ ground+17 floors). The total project cost is estimated to be Rs. 158.45 crore, which will be funded by a term loan of Rs. 64 crore, equity of Rs. 58.5 crore and the remaining Rs. 35.95 crore through unsecured loans from promoters.

Key financial indicators

Not applicable as the company is in construction phase.

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 Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
1	Term loans	64.00	64.00	Feb 09, 2024 [ICRA]BB-(Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	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	FY2024	-	FY2026	64.00	[ICRA]BB- (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 – Not Applicable

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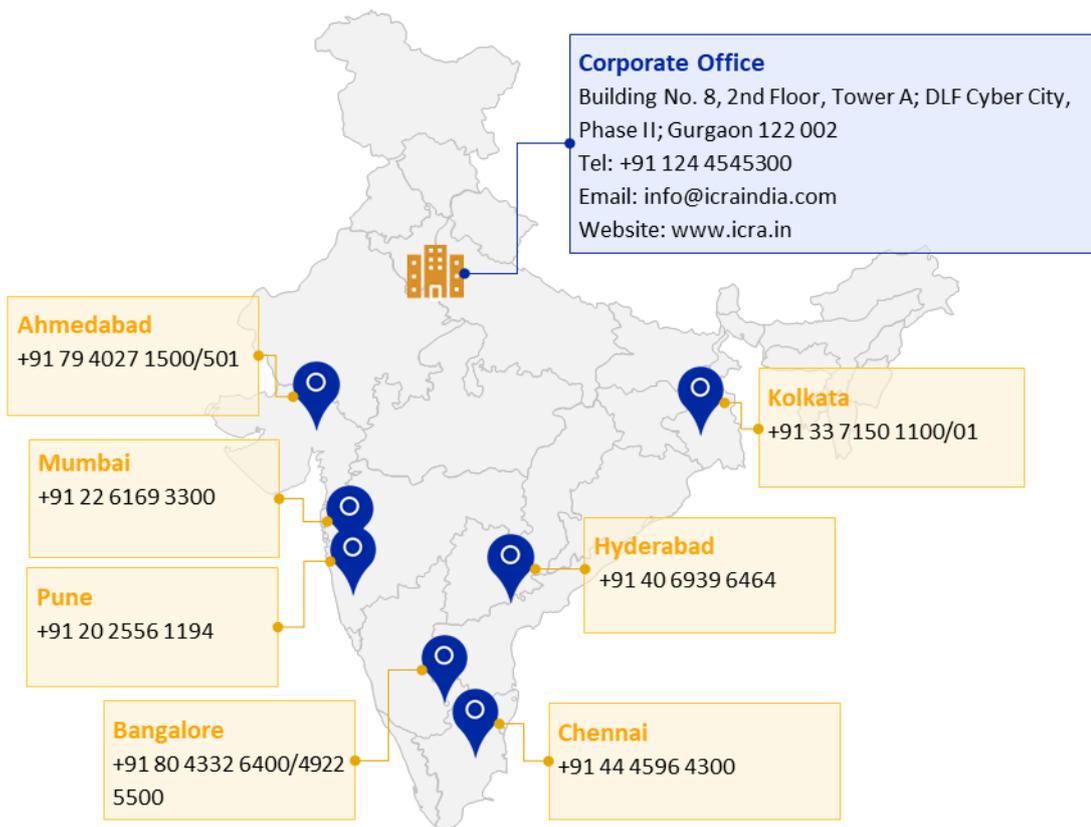
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