June 27, 2024

Sheth Developers Private Limited: Rating reaffirmed for bank limits; rating reaffirmed and withdrawn for NCDs

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based –Term loan	259.9	82.50	[ICRA]BBB- (Stable); Reaffirmed
Long-term–NCD	65.0	0.00	[ICRA]BBB- (Stable); Reaffirmed and Withdrawn
Long-term–NCD	60.1	0.00	[ICRA]BBB- (Stable); Reaffirmed and Withdrawn
Total	**385.00**	**82.50**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Sheth Developers Private Limited (SDPL) factors in an improvement in its collections by 70% to Rs. 431 crore in FY2024, which are expected to further grow by 8-10% in FY2025, supported by sales and incremental construction progress in the ongoing projects and adequate leverage. At present, SDPL is developing five projects in Thane and Mumbai with a total development potential of 1.4 million square feet (msf). Overall, the company has sold 69% of the launched RERA area as of March 2024, with committed receivables of Rs. 730 crore. The projects have pending costs of Rs. 669 crore and debt outstanding of Rs. 425 crore leading to adequate cash flow adequacy (committed receivables/pending cost + outstanding debt) of 67% as of March 2024 (59% as of May 2023). Its total debt (including unsecured loans and preference shares) remained at around Rs. 560 crore as of March 2024 (Rs. 673 crore as of March 2023), while its leverage stood adequate with total debt/CFO of 3.0 times as of March 2024. The rating derives comfort from the long-standing experience of the Ashwin Sheth Group in real estate development, with more than 14 msf of area developed across projects in Mumbai, Thane and Dubai, the Group's demonstrated track record in the Thane micromarket as well as the favourable location of its ongoing projects.

The rating, however, remains constrained by the exposure to execution, market and geographical concentration risks for its ongoing projects. As of March 2024, SDPL achieved 65% construction progress for the ongoing projects, compared to 55% as of March 2023. With pending approvals for some ongoing residential projects, the company remains exposed to approval and execution risks. Moreover, two commercial projects (on sale model) are progressing at a slow pace, wherein the RERA timeline has passed, and timeline extension is awaited. The company's ability to acquire the remaining FSI for the planned development in some of the ongoing residential projects, obtain the balance approvals and sell the pending inventory, will remain the key monitorable. It is exposed to market risks for 34% of area of the ongoing projects, which is yet to be sold. The rating is constrained by the company's moderate scale of operations and high geographical concentration risk with dependence on Thane for revenue generation. The Group remains exposed to the cyclicality inherent in the real estate sector for the ongoing projects and launches.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that SDPL will report healthy sales and collections, supported by good sales velocity, backed by favourable location of the projects, while maintaining adequate leverage.

The ratings have been reaffirmed and withdrawn for the NCDs as the same have been fully redeemed and refinanced with loans with lower interest rates.

Key rating drivers and their description

Credit strengths

Favourable location of projects; improvement in collections – The company's ongoing projects are favourably located and are well connected to various business and residential suburbs of Thane. Most of the residential projects are on the Eastern Express Highway beside Viviana Mall and Jupiter Hospital with proximity to public transport services, schools, colleges, hospitals, shopping centres and supermarkets. Till March 31, 2024, it has sold 69% of the launched RERA area, with committed receivables of Rs. 730 crore. The projects have pending costs of Rs. 669 crore and debt outstanding of Rs. 425 crore leading to cash flow adequacy ratio of 67% as on March 31, 2024. (59% as on May 31, 2023). The company's collections increased by 70% to Rs. 431 crore in FY2024, which are expected to further grow by 8-10% in FY2025, supported by healthy sales and incremental construction progress in the ongoing projects.

Adequate leverage – The company's total debt (including unsecured loans and preference shares) remained at around Rs. 560 crore as of March 2024 (Rs. 673 crore as of March 2023), while its leverage stood adequate with total debt/CFO of 3.0 times as of March 2024.

Long-standing experience of promoters in real estate industry – Incorporated in 1993, SDPL is the flagship company of the Ashwin Sheth Group, with its main business activity being real estate development. With major operations/projects in Mumbai and Dubai, the Group has developed more than 14 msf across residential, commercial and mixed-use projects. Out of this, 9 msf of development was undertaken by SDPL.

Credit challenges

Exposure to project approval, execution and market risks – The consolidated financial progress for the ongoing projects was 65% as on March 31, 2024 compared to 55% as on March 31, 2023. With pending approvals for some ongoing residential projects, the company remains exposed to approval and execution risks. Moreover, two commercial projects (on sale model) are progressing at a slow pace, wherein the RERA timeline has passed, and timeline extension is awaited. SDPL's ability to acquire the remaining FSI for the planned development in some of the ongoing residential projects, obtain the balance approvals and sell the pending inventory will remain the key monitorable.

Exposure to geographical concentration risk – The company is exposed to high geographical concentration as major developments are being undertaken in a single micromarket viz., Thane, which accounts for ~98% of the unsold inventory. However, the Group's past track record in the Thane micromarket and favourable location of these projects provide comfort.

Vulnerability to cyclicality in demand – Being a cyclical industry, the real estate sector is highly dependent on macroeconomic factors, which exposes the company's sales to any downturns in demand.

Liquidity position: Adequate

ICRA expects SDPL's liquidity position to be adequate, with unencumbered cash and liquid balances of around Rs. 80 crore and undrawn bank limits of Rs. 128 crore as of March 2024. The company has committed receivables of Rs. 730 crore from the sold area as on March 31, 2024, covering 67% of the pending cost and the outstanding debt. Its debt repayments are expected to be comfortably serviced from the cash flow from operations.

Rating sensitivities

Positive factors – The rating may be upgraded if the company demonstrates a sustained improvement in sales and collections in the ongoing projects, leading to substantial reduction in debt and cash flow adequacy ratio of over 60%, on a sustained basis.

Negative factors – Any significant delays in execution of the ongoing projects and/or slow sales velocity, resulting in a decline in the collections and increasing dependence on external debt, could trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Realty - Commercial/Residential/Retail](#) [Policy on withdrawal of Credit Ratings](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1993, Sheth Developers Private Limited (SDPL) is the flagship company of the Ashwin Sheth Group. Its main business activity is real estate development. With major operations/projects located in Thane, Mumbai and Dubai, the Group has developed more than 14 msf of area across more than 56 residential, commercial and mixed-use projects. The break-up of past development by the Group across segments is given in the exhibit below. Out of this, 9 msf of development was undertaken by SDPL. Major developments undertaken by the company are in Thane, in Mumbai Metropolitan Region (MMR).

Key financial indicators (audited)

SDPL Standalone	FY2022	FY2023	H1FY2024*
Operating income	238.6	33.0	4.8
PAT	178.5	31.0	-2.0
OPBDIT/OI	10.4%	-59.3%	-226.6%
PAT/OI	74.8%	94.0%	-42.1%
Total outside liabilities/Tangible net worth (times)	2.9	3.3	3.6
Total debt/OPBDIT (times)	25.1	-35.0	-27.5
Interest coverage (times)	2.9	-7.8	-9.6

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation *Unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 27, 2024	Jun 27, 2023	Jun 27, 2022	Jul 07, 2021
1	Term loans	Long term	82.50	82.5	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)
2	NCD	Long term	65.0	-	[ICRA]BBB- (Stable); withdrawn	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)

3	**NCD**	Long term	60.1	-	**[ICRA]BBB- (Stable); withdrawn**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Negative)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Term loans	Simple
Non-convertible debentures	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 loans**	Sep-2017	-	Mar-2025	82.50	[ICRA]BBB- (Stable)
INE841M07136	**NCD**	Mar-2021	17.75%	Mar-2025	65.0	[ICRA]BBB- (Stable); withdrawn
INE841M07144	**NCD**	Jul-2021	15.50%	Jun-2025	60.1	[ICRA]BBB- (Stable); withdrawn

Source: Company

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

ANALYST CONTACTS

Rajeshwar Burla
+91 40 6939 6443
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 6939 6427
anupama.reddy@icraindia.com

Tushar Bharambe
+91 22 6169 3347
tushar.bharambe@icraindia.com

Abhilash Sirsikar
+91 22 6169 3379
abhilash.sirsikar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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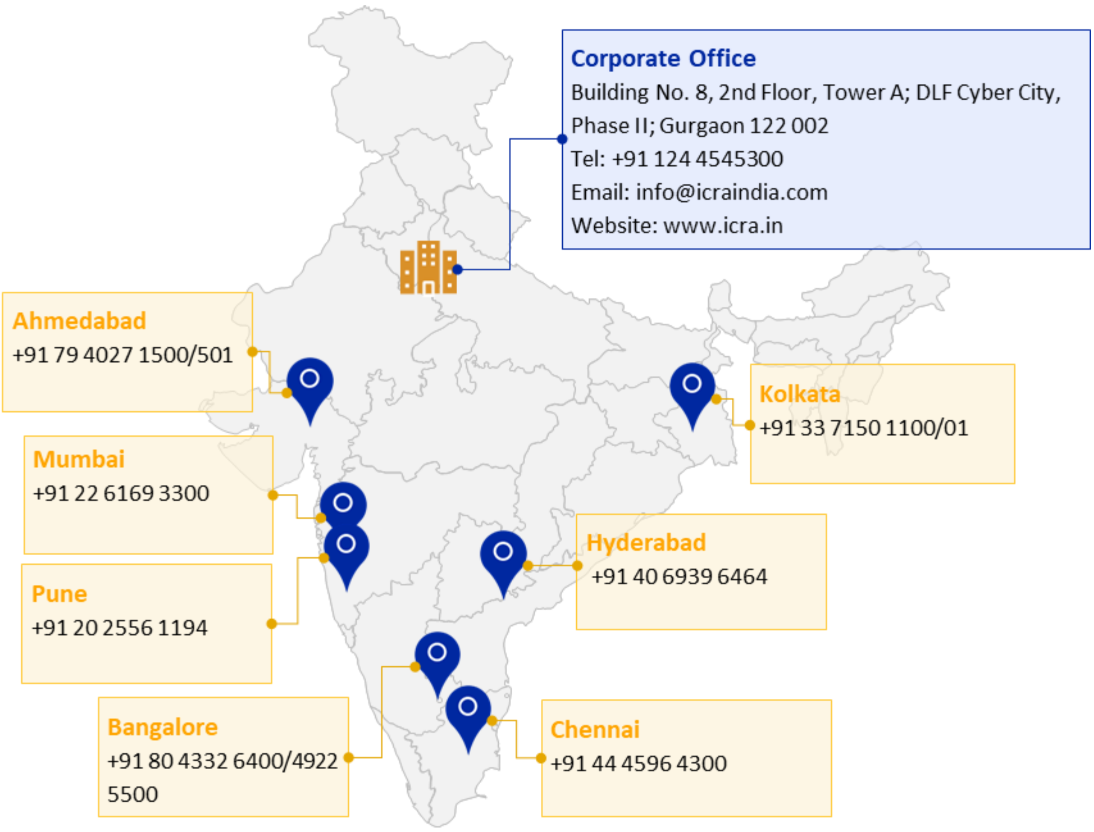
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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