

Bestech India Private Limited

November 30, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	250.00	250.00	[ICRA]BBB (stable); reaffirmed
Term Loans	100.00	100.00	[ICRA]BBB (stable); reaffirmed
Non-funds-based	40.00	40.00	[ICRA]A3+; reaffirmed
Total	390.00	390.00	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B¹) for Rs. 250.0-crore² non-convertible debentures and Rs. 100 crore term loans of Bestech India Private Limited (BIPL). The long-term rating carries a stable outlook. ICRA has also reaffirmed the short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) for Rs. 40 crore non-fund-based limits of BIPL.

Rationale

The ratings reaffirmation factors in healthy execution and the successful completion of BIPL's multiple large projects over the last 12-18 months, as a result of which the company possesses significant finished inventory, wherein demand is higher as compared to that in under-construction projects. The completed inventory also mitigates project, funding and approvals risks and provides financial flexibility. The ratings continue to draw comfort from company's diversified portfolio of projects with healthy mix of commercial, retail and residential projects; significant experience of the promoters in construction and real estate business; company's established track record of delivering projects across multiple segments and its large fully-paid-for land bank in Gurgaon, which provides visibility of launches; additionally, the availability of large unencumbered land bank with the company provides comfort for refinancing, should the need arise. Company also has leased out space in its operational mall in Mohali, which can be monetised to raise funds, if and when required.

The ratings are, however, constrained by the low sales velocity in last three years due to slowdown in real estate market, debt-funded acquisition of one land parcel in Sector 89 in FY2018, and the continuous increase in its leverage over last three years. The ratings also factor in the on-going dispute with JDA partner in company's Athena project (commercial project on NH8) which has led to significant delays in completion of this project. Despite robust execution, ~3.7 million sq ft area remains unsold out of the total saleable area of ~11 million sq ft, exposing the company to marketing risks. Though most of the projects have been completed, the pending inflow from sold inventory is only Rs. 129 crore, the pending cost of remaining two ongoing projects is Rs. ~300 crore, while debt outstanding is Rs. ~700 crore (excluding cash credit/overdraft), making the company heavily reliant on fresh bookings to complete remaining projects and retire debt – the company has already made bookings of more than 0.2 million sq ft in FY2019YTD against bookings of 0.13 million sq ft in FY2018. Significant portion of the debt is due for repayment between FY2019-22, which can put pressure on cash flows in absence of adequate ramp-up in sales and collections. Nonetheless, part of this debt is also linked to cash flows of finished projects and has been prepaid, reflecting positively on company's track record. The ratings also

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

factor in company's exposure to geographical concentration risks and the high competition due to the presence of many completed and on-going projects in the close vicinity of the projects being developed in New Gurgaon.

Outlook: Stable

The real estate sector is currently going through a prolonged slowdown period and BIPL has experienced low bookings and collections over the last three years. The company's debt has also increased to fund project execution, payment of statutory dues and acquisition of a land parcel in FY2018. Nonetheless, the completion of majority of the large residential projects and presence of significant finished inventory on the back of robust execution provides comfort. Consequently, ICRA's outlook on BIPL's credit risk profile remains stable. The outlook may be changed to positive or the rating may be upgraded in case the sales and collections are higher than expected while the leverage is lower. Conversely, the outlook may be changed to negative or the rating may be downgraded if the sales and collections are lower than expected or the leverage is higher.

Key rating drivers

Credit strengths

Long experience of the promoters: The promoters have long and established track record in real estate business. Bestech Group started by taking up civil construction projects in 1990s as a contractor and in 2001 diversified into the real estate business. The group has constructed around ~16 million square feet area over the last two decades, spread across residential, retail, commercial and institutional segments in multiple cities

Robust execution: Robust execution on all the projects of the company, even during slowdown in the real estate market. Company has completed multiple large projects over the past 12-18 months and has received occupancy certificates for them, substantially reducing exposure to project, funding and approval risks

Large finished inventory provides flexibility: Significant inventory has been completed in residential and commercial projects in Gurgaon and Mohali, which attracts higher interest from buyers as compared to under-construction properties. The company has already made bookings of more than 0.2 million sq ft in FY2019YTD against bookings of 0.13 million sq ft in FY2018

Credit weaknesses

Large delays in Athena project: Company is developing a commercial project, Athena, in sector 16 on NH8 in Gurgaon. On account of dispute with the JDA partner, the project is facing significant delays. Since company has already incurred significant costs and has availed debt against the project, additional delays may put pressure on its cash flows

Increase in debt obligations: The company's debt has increased to fund project execution, payment of statutory dues and acquisition of a land parcel in FY2018. Company has significant scheduled debt repayments in FY2019-20 which, coupled with the large capex in hospitality sector (through group entities). Nonetheless, part of this debt is also linked to cash flows of finished projects and has been prepaid, reflecting positively on company's track record.

Exposure to marketing risk amid real estate slowdown: Despite robust execution, ~3.7 million sft area remains unsold out of the total saleable area of ~11 million sq ft, exposing the company to marketing risks. Pending inflow from sold inventory is only Rs. 129 crore while the pending cost of remaining ongoing projects is Rs. ~300 crore and debt outstanding is Rs. ~700 crore (excluding cash credit/overdraft), making the company heavily reliant on fresh bookings to complete remaining projects and retire debt. Company also faces significant competition due to the presence of many completed and on-going projects in the close vicinity of the residential projects being developed in New Gurgaon. Nonetheless, its finished projects are expected to generate better interest from buyers

Liquidity Position:

Though cash and equivalents of Rs. ~73 crore provides liquidity buffer, ICRA expects the company to remain dependent on refinancing over medium term. Nevertheless, as the debt availed in relation to value of completed inventory is still moderate, the company has the flexibility to augment its liquidity position by monetising its significant finished inventory (if the need arise) which is spread across residential, commercial and retail segments in Gurgaon and Mohali. Additionally, the company has sanctioned undrawn limits of more than Rs. ~85 crore against Altura and Athena projects, which will aid their execution.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Ratings: A Note on Methodology Rating Methodology for Real Estate Entities
Parent/Group Support	NA
Consolidation / Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them

About the company:

Bestech India Private Limited (BIPL) is part of the Bestech Group which was founded by Mr. Dharmendra Bhandari and Mr. Sunil Satija in early 90s. The group started as a construction contractor and has been in the construction business for over two decades. It has constructed over 14 million sq. ft of space for various real estate projects including several residential and commercial projects in NCR for developers like Unitech, MGF etc. In 2001, the group diversified into real estate business and incorporated BIPL. Over the years, the Bestech Group has developed more than 11 million sq.ft. of residential and commercial projects in Gurgaon, Mohali & Dharuhera which include – Bestech Chambers, Bestech Central Square, Park View City – I & II, Park View Residency, Park View Spa, Park View Spa Next, Bestech Center Point, and Park View Ananda, Park View Residences, Park View Delight, Bestech City, Orient Bestech Business Tower, Bestech Business Tower

Key Financial Indicators (Audited)

	FY 2017	FY2018
Operating Income (Rs. crore)	264	362
PAT (Rs. crore)	10	20
OPBDIT/ OI (%)	10.81%	16.77%
RoCE (%)	3.91%	6.01%
Total Debt/ TNW (times)	1.45	1.97
Total Debt/ OPBDIT (times)	19.46	13.32
Interest coverage (times)	1.36	1.83
NWC/ OI (%)	332%	309%

Source: BIPL, ICRA estimates

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Cr.)	Amount Outstanding (Rs. Cr.)	Date & Rating (FY2019)	Date & Rating (FY2018)	Date & Rating (FY2017)	Date & Rating (FY2016)
					Nov-18	Nov-17	Nov-16	Sep-15
1	Non-convertible Debentures	Long Term	250	250	[ICRA]BBB (stable)	[ICRA]BBB (stable)	[ICRA]BBB (stable)	[ICRA]BBB (stable)
2	Term Loans	Long Term	100	100	[ICRA]BBB (stable)	[ICRA]BBB (stable)	[ICRA]BBB (stable)	[ICRA]BBB (stable)
3	Non-fund-based Limits	Short Term	40	40	[ICRA]A3+ (stable)	[ICRA]A3+ (stable)	[ICRA]A3+ (stable)	[ICRA]A3+ (stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE902S07018	NCD	Mar-15	12.45%	Mar-20	250.00	[ICRA]BBB (stable)
--	Term Loans	Sep-17		Sep-23	70.00	[ICRA]BBB (stable)
--	Term Loans	Mar-17		Mar-22	30.00	[ICRA]BBB (stable)
--	Non-fund-based Limits	--	--	--	40.00	[ICRA]A3+

Source: Bestech India Private Limited; Source: Company

Annexure-2: List of entities considered for consolidated analysis due to common promoter group

Company Name	Ownership	Consolidation Approach
Starwood Contracts Private Limited	0%	Full Consolidation

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