December 13, 2019

Bestech India Private Limited: Ratings reaffirmed at [ICRA] BBB (Stable)/A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Term Loans	385.00	210.0	[ICRA]BBB (stable); reaffirmed
Long Term – Unallocated	0.0	135.0	[ICRA]BBB (stable); reaffirmed
Non-funds-based	40.00	80.00	[ICRA]A3+; reaffirmed
Total	**425.00**	**425.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in increase in the sales velocity of Bestech India Private Limited (BIPL) with sales of over 5 lakh sq ft area and collections of Rs. 243 crore in FY2019 (against sales of 1.46 lakh sq ft and collections of Rs. 188 crore in FY2018). The company has gained further traction in the current year with sales of 2.12 lakh sqft and collections of Rs. 113 crore in 5M FY2020, primarily driven by its completed projects, namely Business Tower (Mohali) and Grand Spa (Gurgaon). On the back of increased collections and proceeds realised from the sale of land parcel for Rs. 105 crore to a Group company, the company reduced its debt from Rs. 646.8 crore in March 2018 to Rs. 610.2 crore in March, 2019 and further to Rs. 481.6 crore in October 2019. Additionally, new debt raising in the last 18 months led to changes in the lender profile, leading to elongation of repayment tenure and decline in average cost of borrowing of the company. The rating action further takes into account the financial flexibility arising from the finished inventory and the Group's fully paid-up and largely unencumbered land bank of 138 acres. The rating also continues to favourably factor in the Bestech Group's established track record of more than two decades in the real-estate industry, with demonstrated project execution capabilities and strong brand image in the real estate segment. Furthermore, the company has a diversified product portfolio, with healthy mix of commercial, retail and residential projects across Gurgaon and Mohali. The rating also factors in the healthy leasing of the retail mall in Mohali (67% of the area leased in the current year), which will further strengthen the cash inflows of the company. ICRA has noted that the dispute with the partner in Athena project has now been resolved and the company is likely to start the execution and bookings in the project shortly. The same is likely to augment its cash flows going forward, given the attractive location of the project as well as the fact that considerable cost was already incurred on the project, but the sales were hitherto muted on account of the dispute.

The ratings are, however, constrained by the continuing sluggish bookings in the company's ongoing projects in the last three years due to prolonged slowdown in the real estate market. The risk is further accentuated by the fact that pending construction outflow against ongoing projects stood high at Rs. 439 crore, which will necessitate that new sales and collections from customers remain robust. While the sales velocity in the completed projects over the last 12 months remain healthy, the build-up in the committed receivables is low. This, along with high pending cost obligation, leads to weak cashflow adequacy ratio (committed receivables/pending construction cost + outstanding debt) of 18%, making the company heavily reliant on fresh bookings. Further, even though debt has declined, a significant portion of the debt is due for repayment between FY2021 and FY2023, which can put pressure on cash flows in the 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 the company's track record. The ratings also factor in BIPL's exposure to geographical-concentration risks and the stiff competition due to the presence of many completed and ongoing projects in the close vicinity of the projects being developed in New Gurgaon. ICRA further notes the significant expansion plans of the Group companies for developing commercial and hospitality projects, which require funding support from the Group. Hence, support extended by BIPL to other Group companies to meet their funding needs remains a rating sensitivity.

Going forward, the ability of the Group to improve sales velocity to ensure timely collections, and the movement in leverage will be the key rating monitorables.

The real estate sector is currently going through a prolonged slowdown period. Nonetheless, the completion of the majority of 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.

Key rating drivers and their description

Credit strengths

Reduced debt levels in current year despite challenging real estate environment - With healthy sales in the last one year and proceeds realised from the sale of land amounting to Rs. 105 crore to the Group company, BIPL prepaid its debt leading to an reduction in the debt to Rs. 610.2 crore in March 2019 from Rs. 646.8 crore in the previous year; the debt further reduced to Rs. 481.6 crore in October 2019. However, ICRA notes that the major repayments over the next three years (FY2021- FY2023) remain elevated at close to Rs. 424 crore. The chunkiness in the repayments could necessitate debt refinancing, in the absence of timely build-up of additional bookings, sustained collection velocity and execution pressures.

Improvement in sales and collections in completed projects; resolution of dispute with partner in Athena project - Despite the sluggish demand for real estate in the some of the regions where BIPL operates, the company has registered sales of over 5 lakh sq ft area and collections of Rs. 243 crore in FY2019 (against sales of 1.46 lakh sq ft area and collections of Rs. 188 crore in FY2018) and sales of 2.12 lakh sqft area and collections of Rs. 113 crore in 5M FY2020. Also, in the current year, the company has leased 67% of the area in the retail mall in Mohali (~2.06 lakh sqft area is leased), which will strengthen the company's revenue stream going forward. Further, the commercial project – Athena – was stuck due to dispute with the JDA partner, which led to significant delays and put pressure on the company's cashflows as it has incurred significant costs and has availed debt against the project. However, in the current year the dispute is resolved, and the work has restarted. ICRA expects significant cash inflows from the project, given the healthy office space demand owing to the prime location (near NH[1]8 in Gurgaon) and high market price. Also, the company has already incurred considerable cost on the project.

Fully paid-for, largely unencumbered land bank; low approval risk with all approvals in place for upcoming projects – The financial flexibility arising from unencumbered fully paid-up land bank of around 138 acres in Gurgaon, which also lends comfort for future launches. Further, the debt raising potential against the same supports rating action.

Long and established track record of promoters in real estate business in Gurgaon – The company has established position and brand name, particularly in the Gurgaon region, with a diversified asset portfolio. BIPL has a track record of more than 20 years in the Gurgaon and Mohali real estate markets. It is currently developing five projects – residential

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[1] NH= National Highway

and commercial – alongside eight completed projects across residential, commercial and retail. The company has a strong in-house project execution capability, as demonstrated through completion of more than ~16 mn sq ft spread.

Credit challenges

Weak sales velocity in the under-construction projects – The company has five ongoing projects, spread across 2.7 mn sqft area, out of which 49% of the area has been sold. The ongoing project sales remained weak and the company sold 0.11 mn sqft in the last three years due to slowdown and because one of the largest projects – Athena – remained stuck due to dispute with the land owner, exposing the company to high marketing risks. The risk is further accentuated by the high pending construction outflow of Rs. 439 crore against these projects, which will necessitate that new sales and collections from customers remain robust. However, going forward, with the restart of Athena's execution, significant cash inflows will be generated from the project. The ratings also factor in the company's exposure to geographical-concentration risks and the intense competition due to the presence of many completed and ongoing projects in the vicinity of the projects being developed in New Gurgaon.

Subdued cashflow adequacy ratio; BIPL remains heavily reliant on new sales to shore up cash flows – While the sales velocity in the completed projects over the last 12 months remain healthy, the build-up in the collections remains low with the advances realised within 45 days, leading to low committed receivables. This along with high pending cost obligation (construction cost in the ongoing projects and debt outstanding) leads to weak cashflow adequacy ratio (committed receivables/pending construction cost + outstanding debt) of 18%, making the company heavily reliant on fresh bookings.

High execution and funding risks due to significant expansion plans of the Group – The Group has plans to develop hospitality projects, wellness resorts and real estate projects over the medium term. Nonetheless, the financial policy is not expected to be overly aggressive, based on the past track record of regular infusion of funds by the promoters, which has supported its credit risk profile. The expected funding for the planned capex will be via debt and intercompany loans, and the support extended by BIPL to other Group companies will be a rating sensitivity.

Liquidity position: Adequate

The current liquidity position of BIPL is **adequate** and duly supported by significant cash and equivalents of Rs. 50 crore along with the unutilised overdraft limit of Rs. 50 crore as on October 31, 2019, which provide liquidity buffer. Additionally, the unencumbered completed inventory spread across various projects and locations provides flexibility.

Rating sensitivities

Positive triggers – The ratings may be upgraded if cashflow adequacy ratio (committed receivables/pending cost plus outstanding debt) stays above 35% on sustainable basis and if there is a consistent increase in bookings and collections along with reduction in debt.

Negative triggers – The ratings may be downgraded if the cashflow adequacy ratio below 10%, or if there is pressure on bookings and collections and increase in leverage on a prolonged basis. Further, support extended to other Group companies to meet their funding needs will be a rating sensitivity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Real Estate Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

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 the early 1990s. The Group started as a construction contractor and has been in the construction business for over two decades. It has constructed over 16 million sq. ft of space for various real estate projects, including several residential and commercial projects in the 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 and Dharuhera. Currently, the company is developing 2.7 mn sqft of area and has 5.5 mn sqft area as completed inventory.

In FY2019, the company reported a net profit of Rs. 31.60 crore on an operating income (OI) of Rs. 448.25 crore compared with a net profit of Rs. 20.23 crore on an OI of Rs. 361.87 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	361.87	448.25
PAT (Rs. crore)	20.23	31.60
OPBDIT/OI (%)	16.77%	10.70%
RoCE (%)	6.01%	5.86%
Total Outside Liabilities/Tangible Net Worth (times)	1.97	1.68
Total Debt/OPBDIT (times)	13.32	15.52
Interest Coverage (times)	1.83	1.87
DSCR	0.74	0.57

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating		FY2019	FY2018	FY2017	2016
					13-December, 2019	29-November, 2019	30-November, 2018	29-November, 2017	04-November, 2016	07-September, 2015
1	Term Loans	Long Term	210.0	210.0	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Unallocated	Long Term	135.0	-	[ICRA]BBB (Stable)	-	-	-	-	-
3	Non-fund-based Limits	Short Term	80.0	80.0	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4	Non-convertible Debentures	Long term	250.0	0.0	-	[ICRA]BBB (Stable); Withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Amount in Rs. Crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans - 1	December, 2018	10.7%	February-2022	70.0	[ICRA]BBB(Stable)
NA	Term Loans – 2	September, 2019	10.0%	August 2031	70.0	[ICRA]BBB(Stable)
NA	Term Loans – 3	March, 2018	11.0%	February-2022	70.0	[ICRA]BBB(Stable)
NA	Unallocated	-	-	-	135.0	[ICRA]BBB(Stable)
NA	Non-fund-based Limits	-	-	-	80.00	[ICRA]A3+

**weighted average*
Source: Company

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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