

March 30, 2020

Sumadhura Infracon Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	305.0	305.0	[ICRA]BBB (Positive); reaffirmed
Total	305.0	305.0	

*Instrument details are provided in Annexure-1

Rationale

The rating continues to take into account the established track record of Sumadhura Group in the Bangalore and Hyderabad real estate markets, with experience of more than two decades and completion of more than 5.7 million square feet (msft) of real estate development. The Group continues to showcase timely construction progress across its projects, with completion of Soham-II in FY2019 and scheduled handover of Acropolis and Eden Garden by FY2021. Aided by the favourable location of the ongoing projects, the group has demonstrated adequate saleability in these projects, which mitigates the funding risk in the residential real estate segment to some extent. The rating also factors in presence of escrow mechanism for the project debt with sweep mechanism, which has resulted in consistent prepayment of the debt in relation to the schedule.

The rating is, however, constrained by the company's moderate scale of operations, with four projects under development in Bangalore and Hyderabad. The company has considerable plans for upcoming projects, expected to be launched in the next two-three years. However, timely launch of these projects will be a key rating monitorable. The new launches over the last 18 months have been lower than earlier expectation. Over a period of last twelve months, the company has witnessed moderation in sales for some of the projects like Eden Garden and Nandanam. Nevertheless, with expected increase in marketing activities and nearing completion, the sales are anticipated to improve in future. The ratings are further restricted by the limited track record of the Group in the commercial real estate segment, where the Group is developing an office building with saleable / leasable area of 1.2 million square feet. Nascent stage of construction and low sales/lease tie-up status in the project exposes the company to significant execution, funding and marketing risks in this segment.

The Positive outlook on the rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its promoters in real-estate development and track record of timely project execution. These strengths are expected to support the growth and diversification plans of the Group. Timely progress in the execution and marketing of the commercial project can also strengthen the Group's business and financial risk profile.

Key rating drivers and their description

Credit strengths

Long standing experience of promoters - Sumadhura Group has a long track record of more than two decades in the real estate development in Bengaluru and Hyderabad. In the past, the group has completed several residential projects, encompassing more than 5.7 million square feet of constructed area, reflecting its project execution capabilities. So far, the group has developed 28 residential projects under the brand name of Sumadhura.

Timely construction progress - The company continues to showcase timely construction progress across its projects. The company has successfully completed construction of project Soham-II in FY2019. As on December 2019, majority of the

ongoing residential projects are in advance stages of development, with Acropolis (one of the major projects of the Group) nearing completion. Given the healthy construction progress, the company is expected to complete projects like Eden Garden and Nandanam ahead of the scheduled dates, which is expected to improve sales traction.

Adequate saleability, supported by favourable location – The ongoing projects, located in Bangalore and Hyderabad, are close to some of the key commercial areas of the city, resulting in adequate demand prospects. In FY2020, the company has launched a new project named “Horizon” in Hyderabad, increasing its presence in Hyderabad. Nearly 50% of the saleable area has been sold within six months of the project launch. Notwithstanding the moderation in sales velocity in some of the other ongoing projects, the saleability in ongoing projects remains adequate with receivables from sold area covering 47% of the balance cost and debt outstanding, as on December 2019.

Presence of escrow with accelerated sweep-in mechanism– Though the project loans have adequate moratorium and extended maturity profile, the company has demonstrated a track record of prepaying its debt through accelerated sweep mechanism of the escrowed project collections.

Credit challenges

Moderate scale of operations – The company has moderate scale of operations with four residential and one commercial project under development in Bangalore and Hyderabad, as on December 2019. Presence of the company remains limited to a few micro-markets in these locations, resulting in the company’s sales being vulnerable to any downturn in the real-estate demand and competition from various established developers in such micro-markets. The company has considerable plans for upcoming projects, expected to be launched in the next two-three years. Even though, majority of the investments towards land for the upcoming projects have already been incurred, timely receipt of approvals and launch of the new projects remains to be seen. The new launches over the last 18 months have been lower than earlier expectation.

Moderation of sales velocity in some projects – Over a period of last twelve months, the company has witnessed moderation in sales for some of the projects like Eden Garden and Nandanam. However, with plans to bring ahead the completion timelines for such projects and increasing marketing activities, the sales are expected to improve in future. Moreover, the overall sales progress remains adequate, supported by higher than anticipated sales in other projects like Horizon.

Exposure to funding, marketing and execution risk in the commercial segment; limited track record of the Group in the segment- Currently, the company is also developing a commercial project near Whitefield, in Bangalore, with total area under development of 1.2 million square feet. The project is in nascent stages of construction and sales/lease tie-up for the project is yet to commence. Further, this being the first project of the Group in the commercial segment, increases the risks associated with the project. Though, the company has availed adequate construction loan for the commercial development, the drawdown schedule is linked to pre-defined construction and sales milestones. Timely execution and adequate sale/leasing of the project would be a key monitorable.

Liquidity position: Adequate

The company’s operational cash inflows over the next twelve months are expected to be adequate to cover the budgeted residential construction costs and meet any equity requirements towards the ongoing capital expenditure over this period. In addition, the company has access to undrawn and sanctioned debt limits of Rs 336.2 crore as on December 2019 to support the funding requirements, including towards investments in land for upcoming projects. The company has cash and bank balances of Rs. 6.9 crore as on December 2019, which further supports its liquidity profile.

Rating sensitivities

Positive triggers – ICRA could upgrade the company’s rating in case of better-than-expected sales performance in ongoing residential projects and improvement in scale, resulting in improved cash flows. Further, moderation of the significant market risk associated with the ongoing commercial development would be a key rating trigger.

Negative triggers – Downward pressure on ratings could emerge in case of subdued sales or if any significant delay in completion in the ongoing residential projects weakens the liquidity position of the company. Also, slower sales in the commercial project leading to higher leverage than anticipated, could lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group Support	Not Applicable
Consolidation/Standalone	Based on the strong operational and financial linkages between the group entities and their common management group, the rating is based on consolidated financial statements of Sumadhura Infracon Private Limited (SIPL), Sumadhura Capitol Towers Private Limited (SCTPL) and Sumadhura Urban Estates Private Limited (SUEPL).

About the company

Sumadhura Infracon Private Limited (SIPL) was formed in the year 2012 and is the flagship entity of Sumadhura Group involved in real estate development. Mr. G Madhushudhan, holds 58% share in SIPL while the balance is held by his family members. SIPL is involved in residential real estate development and currently has four under-construction residential projects with a total saleable area of 3.7 million square feet (with SIPL’s share being 2.6 million square feet), located in Bengaluru and Hyderabad. Since 1997, Sumadhura Group has developed around 43 residential projects with a total built-up area of 5.7 million square feet.

Sumadhura Capital Towers Private Limited (SCTPL), 60% subsidiary of SIPL, is developing a commercial project near Whitefield, in Bangalore, with total area under development of 1.2 million square feet. Sumadhura Urban Estates Private Limited (50% subsidiary of SIPL), Sumadhura Homes LLP (100% held by promoters of Group) and Sumadhura Co Homes Private Limited (100% held by promoters of Group) have upcoming projects in the affordable housing, co-living and plotted layouts real-estate segments.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	312.3	287.8
PAT (Rs. crore)	30.4	26.3
OPBDIT/OI (%)	20.6%	21.8%
RoCE (%)	29.1%	22.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.8	2.8
Total Debt/OPBDIT (times)	2.0	3.4
Interest Coverage (times)	5.3	2.8
DSCR	4.0	2.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding**	Rating	FY2019	FY2018	FY2017	
					30-Mar-2020	26-Dec-2018	27-Feb-2018	09-Aug-2016	03-Aug-2016
1	Term Loan	Long Term	305.0	126.2	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)

*Amount in Rs. Crore; **As on Feb 2020.*

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
NA	Term Loan 1	Jan-17	-	Mar-20	35.7	[ICRA]BBB (Positive)
NA	Term Loan 2	Jul-17	-	Jul-23	88.1	[ICRA]BBB (Positive)
NA	Term Loan 3	May-18	-	Jul-22	31.2	[ICRA]BBB (Positive)
NA	Term Loan 4	May-18	-	Jul-24	150.0	[ICRA]BBB (Positive)

Source: SIPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sumadhura Infracon Private Limited	100.00%	Full Consolidation
Sumadhura Capitol Towers Private Limited	60.00%	Full Consolidation
Sumadhura Urban Estates Private Limited	50.00%	Full Consolidation

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