

July 20, 2020

Srijan Realty Private Limited: Rating reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	59.24	66.75	[ICRA]A- Reaffirmed; outlook revised to Negative from Stable
Fund Based - Overdraft	15.82	53.00	[ICRA]A- Reaffirmed; outlook revised to Negative from Stable
Unallocated	74.94	30.25	[ICRA]A- Reaffirmed; outlook revised to Negative from Stable
Total	150.00	150.00	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has consolidated the cash flows of Srijan Realty Private Limited (SRPL) along with its operational Group entities (hereinafter referred to as the Srijan Group or the Group) having ongoing projects and/or outstanding debt, given the close business, financial and managerial linkages among them.

The revision in the outlook follows the slowdown in the incremental sales and collections of the Srijan Group in FY2020 relative to FY2019, which impacted cash flows for the year. In the current year as well, the novel coronavirus (Covid-19 pandemic) is expected to further impact the operations and cash flows of the Group. Real estate demand is expected to witness moderation and committed receivables from already booked sales are likely to be impacted, given that milestone-based payments may get deferred and some buyers may delay payments on account of economic uncertainties. On the supply side, new launches are expected to slow down further, and execution of ongoing projects is likely to be hampered by reduced labour presence and raw material supply chain disruptions. This may result in moderation in project profitability and return metrics, particularly in case of price reductions, delayed inflows, and/or cost overruns. The overall project cash flows are thus expected to be impacted, resulting in a weakening of the credit risk profile of real estate developers, including the Srijan Group. However, the Group's rating remains supported by available liquidity of around Rs. 25 crore¹ in the form of liquid balances and Rs. 60 crore in the form of undrawn bank lines. Borrowing levels across the projects also remain low, and prepayments made in previous years on account of collection-linked cash sweeps have moderated the repayment obligation on construction finance loans for FY2021, as the prepayments have been adjusted against the next immediate scheduled repayments. ICRA notes that around 63% of the Group's outstanding external debt of Rs. 354 crore as on March 2020 comprised lease rental discounting loans, secured against lease rentals from a commercial portfolio of around 0.8 million square feet (msf), generating a net rental income of around Rs. 45 crore p.a. Retail rental revenues, which contribute to around 25% of the same, have been severely impacted by Covid-19. However, the impact on the office leasing portfolio, which accounts for the major part of the outstanding LRD debt, has been limited, keeping the overall rental cashflows adequate to meet debt servicing obligations. The moratorium availed by the Srijan Group on certain LRD and construction finance loans as a part of the Covid-19 - Regulatory Package announced by the Reserve Bank of India (RBI), which has eased repayment obligations

¹ As on date, as per discussion with management

over the next few months, also offers comfort. ICRA will continue to monitor the developments and their corresponding impact on the Srijan Group's liquidity and overall financial position.

The rating continues to draw comfort from the established market position of the Srijan Group, with a track record of around 16 years in the real estate industry, with presence in Kolkata, Asansol, and Burdwan in Eastern India & Chennai in the south. However, the primary focus of the Group has been in the Kolkata region. The Group has strong project execution capabilities, as demonstrated through consistent delivery of good quality projects, with almost 6.6 msf completed as on date comprising 31 projects. The developments span across residential, commercial, industrial, and retail segments, and as a policy, the Group largely undertakes projects in collaboration with other reputed developers, to distribute project risks and gain operational synergies. At present, the Group, together with its partner developers, is undertaking around 13.2 msf of development, of which 10.7 msf has been launched for sale. While cumulative sales levels across these projects stood at a healthy 84% of the launched area in March 2020, ICRA notes that sales and collections witnessed a slowdown in FY2020. Sales of Rs. 428 crore and collections of Rs. 585 crore were recorded in FY2020 (as per provisional figures), against Rs. 594 crore and Rs. 762 crore respectively in FY2019, being largely supported by phase-wise completions in certain projects. Moreover, the collapse of an arterial bridge adversely impacted the connectivity to one of the Group's largest ongoing residential projects – Greenfield City – which resulted in some decline in project sales and cash flows over the past year. Nonetheless, the consolidated financial profile of the Group remained healthy on an absolute basis. The rating reaffirmation also takes into account the fully paid-up land bank of the Group, which provides financial flexibility.

The rating, however, remains constrained by the high concentration of the Group's operations which are largely confined in one city i.e. Kolkata and its surrounding areas, thereby exposing it to fluctuations in a single market's performance. Offtake risks also exist for the unsold/unlaunched inventory in ongoing and completed projects. The intermediate stage of most of the ongoing projects, together with the planned launch of at least around 1.1 msf over the near-to-medium term, exposes the Group to execution risks as well. With the upcoming projects budgeted to be funded by a mix of debt, promoter's contribution and customers advances, funding risks also exist, although the past track record of the Group mitigates the risks to an extent.

Key rating drivers and their description

Credit strengths

Established real-estate developer with long track record and strong market position in eastern India, particularly Kolkata; partnerships with other reputed developers mitigates project risk – The Srijan Group has an established track record in the real sector in eastern India, particularly in and around Kolkata, having completed 31 projects (comprising residential and commercial developments) spanning around 6.6 msf, till date. It is reputed for providing timely delivery of good quality assets across residential, commercial, industrial and retail segments, with a wide-range of ticket sizes varying from Rs. 25 lakhs – Rs. 6.5 crore. The Group undertakes most projects in partnership with other reputed developers, such as PS, Emami, Salarpuria & Sattva, Primarc, Heritage, NPR, Star Realty, and Bengal Greenfield Housing Development Co. Limited, which enables the Group to distribute project risks and reap benefits from the synergies that the developers share.

Adequate booking levels in most ongoing projects, supported by attractive locations and ticket sizes, reduces market risks, although offtake risks remain for unsold inventory – The Group is currently undertaking 13 ongoing projects, mostly in partnership with other developers, having a total saleable area of 13.2 msf, of which 10.7 msf has been launched for sale. Cumulative sales levels across these projects stood at a healthy 84% of the launched area in March 2020, resulting in market risks being reduced to an extent, although ICRA notes that offtake risks remain for the unsold inventory in the ongoing and completed projects. Sales are supported to a large extent by a Group company, N.K. Realtors Pvt. Ltd. (NKRPL), which is among the largest real estate marketing companies in eastern India.

Financial flexibility derived from fully paid-up land bank; undrawn bank lines and low leveraging in ongoing projects support overall liquidity position – The Group has a considerable fully paid up land bank, which, in addition to providing visibility on future projects, serves as a source of financial flexibility. Moreover, with the Group maintaining a low level of leverage in its ongoing projects, and keeping sufficient undrawn bank lines in hand, the overall liquidity position remains adequate.

Rental income from favourably located commercial properties supports cash flows, notwithstanding the ongoing impact of Covid-19 – The Srijan Group’s commercial real estate portfolio comprises 0.8 msf of leasable area spread across five properties, of which two are in Salt Lake City, Sector V, one is on EM Bypass, Kolkata, one is in Asansol and one is in Chennai, generating a net rental income of around Rs. 45 crore p.a. The portfolio includes two malls, which contribute to around 25% of the rental revenue, with the balance being generated from three office buildings.

Credit challenges

Slowdown in sales and collections in FY2020 due to market conditions and lack of project phase completions, which has impacted cash flow adequacy indicators, though the same remains healthy on an absolute basis – Sales of Rs. 428 crore and collections of Rs. 585 crore were recorded in FY2020, as against Rs. 594 crore and Rs. 762 crore respectively in FY2019, with the healthy traction in FY2019 largely supported by phase-wise completions in certain projects. Moreover, the collapse of an arterial bridge adversely impacted the connectivity to one of the Group’s largest ongoing projects – Greenfield City – which resulted in some decline in project sales and cash flows over the past year. Nonetheless, the consolidated financial profile of the Group remained healthy on an absolute basis, with the adequacy of committed cash flows² standing at a high 85%.

Moderation expected in current-year cash flows due to Covid-19; however, low overall leverage levels and adequate liquidity offer comfort – The pandemic is expected to impact the overall project cash flows of real estate developers, including the Srijan Group, resulting in a weakening of credit risk profile. ICRA, however, draws comfort from the liquidity available to the Srijan Group in the form of around Rs. 25 crore of liquid balances and Rs. 60 crore of undrawn bank lines. Borrowing levels across the projects also remain low, and prepayments made in the previous years on account of collection-linked cash sweeps have moderated the repayment obligation on construction finance loans for FY2021, as the prepayments have been adjusted against the next immediate scheduled repayments.

ICRA notes that around 63% of the Group’s outstanding external debt of Rs. 354 crore as in March 2020 comprises lease rental discounting loans, secured against lease rentals. While the impact of Covid-19 on the retail portfolio has been severe, the impact on the office leasing portfolio, which accounts for the major part of the outstanding LRD debt, has been limited. Consequently, the overall rental cashflows have remained adequate to meet the debt servicing obligations. Additional comfort is drawn from the moratorium availed by the Srijan Group on certain loans as a part of the Covid-19 - Regulatory Package announced by the RBI, which has eased repayment obligations over the next few months. ICRA will continue to monitor the developments in this regard and the corresponding impact on the Srijan Group’s liquidity and overall financial position. ICRA will continue to monitor the developments in this regard and the corresponding impact on the Srijan Group’s liquidity and overall financial position.

Intermediate stage of most ongoing projects, and a planned pipeline of at least 1.1 msf, exposes company to execution risks; funding risks exist for upcoming projects – With several projects being at intermediate stages of development, with significant unlaunched area, the company remains exposed to execution risks for the balance

² Calculated as adequacy of committed cash flows= Receivables / (pending cost for launched area + o/s debt)

construction. The Group is also launching one residential project and two commercial projects within this financial year with a total saleable area spanning over 1.15 msf, with an estimated aggregate project cost of Rs. 486 crore. With the upcoming projects expected to be funded by a mix of debt, promoter’s equity and customer advances, funding risks also exist, although the past track record of the Group mitigates the risks to an extent.

High concentration of operations in Kolkata market, exposes company to fluctuations in a single market’s performance – Of the approximately 13.2 msf being constructed by the Srijan Group at present, around 92% is being developed in and around Kolkata, exposing the Group to geographical concentration risks, although ICRA notes that the projects are diverse in the end-user segments that these are targeting. The Group is slowly expanding into other geographies, such as South India and has undertaken two projects in the South at present, in partnership with PS and Salarpuria. However, sales levels for these projects have been modest thus far, relative to the other ongoing projects of the Group.

Liquidity position: Adequate

The Group’s cash flows are expected to be moderate over the near to medium term on account of the Covid-19 pandemic. However, the committed receivables from the sold area, as well as sales from completed inventory are expected to support cash flows going forward. Debt repayments for construction loans are largely linked to project collections and scheduled repayments remain limited over the near term. ICRA also notes that moratorium has been availed on certain LRD and CF obligations, which has eased repayment obligations over the near term. Moreover, the Group maintains a DSRA of around one month of principal and interest servicing on the LRD loans availed against commercial properties, which account for almost 63% of the total debt outstanding for the Group as on March 31, 2020. Additionally, unencumbered cash and liquid balances of around Rs. 25 crore, and undrawn OD lines of around Rs. 10 crore provide further comfort.

Rating sensitivities

Positive triggers – An upgrade is unlikely in the near term. The outlook may be revised to Stable if there is a considerable increase in sales velocity, with continued robustness in collection efficiency, resulting in better-than-expected cash flow, along with reduction in debt on a sustainable basis. Increased geographical diversity would also be a key credit positive.

Negative triggers – Negative pressure on the rating could arise in case the impact of Covid-19 or other pressures on bookings and collections result in higher-than-expected moderation in the Group's financial risk profile, leading to increased debt levels. Further, any large investments in land bank or other capital expenditure, and the mode of funding of the same may impact the ratings.

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	For arriving at the ratings, ICRA has consolidated the cash flows of SRPL along with its operational Group entities having ongoing projects and/or outstanding debt (as mentioned in Annexure-2), given the close business, financial and managerial linkages among them; in line with its methodology for rating real estate entities, the Srijan Group’s share of the cash flows across various Group companies have been consolidated.

About the company

The Srijan Group, which undertakes commercial, industrial, retail as well as residential real estate projects in East and South India, was founded by Sri Shyam Sunder Agarwal, Sri Ram Naresh Agarwal and their two brothers. Srijan Realty Pvt Ltd, incorporated in 1996, is the flagship company of the Group. The Group has already executed over 6.6 million square feet of construction. A further approximately 13.2 million square feet of construction is planned at present.

The group also has a considerable presence in the marketing of real estate projects in Eastern India through group company, N. K. Realtors Pvt. Ltd. (NKRPL). NKRPL is amongst the largest marketing & selling agents of real estate developments in Eastern India, having sold, leased and rented more than 2.35 Crore square feet of flats, offices, showrooms, godowns and sheds and is exclusively marketing more than 2.87 Crore square feet of residential space, in addition to significant retail transactions.

In FY2019, SRPL reported a net profit of Rs. 18.1 crore on an operating income (OI) of Rs. 136.2 crore compared to a net profit of Rs. 17.8 crore on an OI of Rs. 98.2 crore in the previous year.

Key financial indicators (Standalone)

	FY2018	FY2019
Operating Income (Rs. crore)	98.2	136.2
PAT (Rs. crore)	17.8	18.1
OPBDIT/OI (%)	35.4%	23.5%
PAT/OI (%)	18.2%	13.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.2
Total Debt/OPBDIT (times)	4.2	5.7
Interest Coverage (times)	2.0	1.6

Status of non-cooperation with previous CRA:

CRISIL, in its rationale published on Srijan Realty Private Limited, dated January 31, 2020, put the ratings on Issuer not cooperating category at CRISIL BB+/Stable (ISSUER NOT COOPERATING; Migrated from 'CRISIL BBB+/Positive') based on best available information.

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 as on 30/06/2020	Current Rating	FY2020			FY2019	FY2018
					20-July 2020	07-October 2019	25-July 2019	15-July 2019	20-August 2018	
1	Term Loans	Long Term	66.75	52.33	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-
2	Fund Based - Overdraft	Long Term	53.00	20.20	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-
3	Unallocated	Long Term	30.25	NA	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-
4	Issuer Rating	Long Term	NA	NA	-	[ICRA]A-(Stable) Withdrawn	[ICRA]A-(Stable); Placed on Notice of Withdrawal for a period of 1 month	[ICRA]A-(Stable)	[ICRA]A-(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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	Mar-2016 to Mar-2020	NA	Feb-2020 to Mar-2031	66.75	[ICRA]A- (Negative)
NA	Overdrafts	NA	NA	NA	53.00	[ICRA]A- (Negative)
NA	Unallocated Limit	NA	NA	NA	30.25	[[ICRA]A- (Negative)

Amount in Rs. Crore
 Source: Srijan Realty Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
SRIJAN REALTY PRIVATE LIMITED	100%	Full Consolidation
SKY VIEW DEVELOPERS	37.5%	Proportional Consolidation
TRINITY INFRAPARK LLP	33.33%	Proportional Consolidation
PS SRIJAN REAL VENTURE LLP	50%	Proportional Consolidation
GREENFIELD CITY PROJECT LLP	50%	Proportional Consolidation
BADU ROAD DEVELOPERS LLP	37.5%	Proportional Consolidation
NEELANCHAL REALTORS LLP	15%	Proportional Consolidation
PS SRIJAN DEVELOPERS LLP	45%	Proportional Consolidation
PS SRIJAN HEIGHT DEVELOPERS	50%	Proportional Consolidation
REPROSCAN TECH PARK LLP	50%	Proportional Consolidation
SOUTH WIND PROJECT LLP	37.5%	Proportional Consolidation
SRIJAN STAR REALTY LLP	75%	Proportional Consolidation
PS SRIJAN ESTATES LLP	50%	Proportional Consolidation
PS SRIJAN CONCLAVE	50%	Proportional Consolidation

Analyst Contacts

Shubham Jain

+91 1244545 306

shubhamj@icraindia.com

Mahi Agarwal

+91 337150 1106

mahi.agarwal@icraindia.com

Saloni Hasija

+91 337150 1185

saloni.hasija@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents