December 30, 2022

Gaursons Hi-Tech Infrastructure Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	955.00	548.77	[ICRA]BBB+ (Stable); reaffirmed
Long-term – Fund-based – Cash credit	70.10	75.10	[ICRA]BBB+ (Stable); reaffirmed
Long-term – Non-fund-based	59.00	76.13	[ICRA]BBB+ (Stable); reaffirmed
Long-term – Unallocated	15.90	-	
Total	**1100.00**	**700.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in the healthy growth in sales of the Gaursons Group's[1] completed as well as ongoing projects. In H1 FY2023, the Group has sold area of 2 million square feet (msf) with value of Rs. 1,000 crore against area sold of 2.6 msf with value of Rs. 1,016 crore in FY2022. The gross debt[2] reduced from Rs. 1,600 crore as on March 31, 2022 to Rs. 1,390.8 crore as on September 30, 2022, driven by healthy sales and collections in H1 FY2023. Consequently, the gross debt to cash flow from operations ratio is expected to be comfortable at around 2.5 times in FY2023. Further, the Group's cash flow adequacy cover[3] remains comfortable at around 85% as on September 30, 2022. The rating continues to derive comfort from the established market position of the Gaursons Group, with a track record of more than 25 years in the real estate industry, particularly in Ghaziabad, Noida and Greater Noida regions, and the Group's strong project execution and sales capabilities. The rating favourably notes the Group's diversified operations across residential, commercial, retail, education, and hospitality segments.

However, the rating continues to be constrained by the Group's exposure to geographical concentration risk with most of its ongoing projects located in the National Capital Region (NCR), particularly in Greater Noida, thereby exposing it to fluctuations in a single market's performance. The rating factors in the Group's moderate scale of operations and exposure to execution and marketing risks associated with the unsold area, in addition to the ongoing and planned launches. Nevertheless, the Group's long and established track record in NCR provides comfort. Notwithstanding the healthy sales velocity, the Group remains exposed to the inherent cyclicality in the real estate industry, which is highly dependent on macro-economic factors, and render its sales vulnerable to any downturn in demand.

As on November 30, 2022, around 50% of the Group's external debt is against rental collections (of around Rs. 126 crore in FY2023) from the leased portfolio (including retail, hotel and education segments). ICRA expects the gross debt/rentals of the leased portfolio to be ~5.5 to 6 times with modest DSCR in the medium term. Moreover, the Group's hospitality and retail segment remains vulnerable to external factors such as the Covid-19 pandemic.

While reaffirming the rating, ICRA has taken note of the ongoing litigation for the compensation for the local farmers for a land transaction done in the past and litigation pertaining to the dues towards local authorities. The matter is currently subjudice.

[1] For arriving at Gaursons India (P) Limited's (GIPL) rating, ICRA has taken a consolidated view of GIPL and its subsidiaries given the close business, financial and managerial linkages among the entities. Please refer to Analytical approach on page 3 and Annexure 2 on page 5 for list of entities consolidated

[2] Gross Debt includes debt across all segments including Residential, Corporate Debt, Commercial, Retail, Hospitality and LRD

[3] Cash flow adequacy ratio = Receivables from sold area / (pending construction cost + debt outstanding from the residential segment)

Further, ICRA has considered the Income Tax (IT) department's search operations on the Group's properties in FY2022. As per ICRA's discussions with the management, the matter is still under investigation. ICRA will continue to monitor these developments and take rating action, if required, as more clarity emerges on these issues.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the Group will continue to benefit from its long and established track record in the NCR real estate market, its strong execution capabilities, comfortable leverage and cash flow adequacy ratio.

Key rating drivers and their description

Credit strengths

Healthy sales velocity and collections – The Group reported healthy bookings in FY2022 and H1 FY2023. It has sold an area of 2 msf with value of Rs. 1,000 crore in H1 FY2023 against an area sold of 2.6 msf with value of Rs. 1,016 crore in FY2022. Further, the collections from the residential segment remained healthy at around Rs. 1,561 crore and Rs. 898 crore in FY2022 and H1 FY2023, respectively. Moreover, the cash flow adequacy ratio stood comfortable at 85% as on September 30, 2022, in the residential segment, supported by reduction in consolidated leverage and healthy committed receivables.

Improvement in leverage position in FY2023 due to healthy collections – On the back of healthy sales and collections in H1 FY2023, the gross debt[4] has reduced to Rs. 1,390.8 crore as on September 30, 2022 from Rs. 1,600 crore as on March 31, 2022. Consequently, the gross debt to cash flow from operations ratio is expected to be comfortable at around 2.5 times in FY2023.

Established real estate developer in NCR with diversified operations across residential, commercial, retail, education, and hospitality segments – The Gaursons Group has a track record of more than 25 years in the Noida and Ghaziabad real estate market with demonstrated project execution capabilities and a strong brand. The promoters have successfully completed multiple projects in the NCR across residential, commercial, and retail segments. At present, the Group has a portfolio of 38 projects consisting of residential, commercial and farmhouses, out of which 21 projects are ongoing and the rest are completed. The company has a strong in-house project execution capability, as demonstrated through completion of more than 60 msf spread across 65,000 units. In addition, the Group earns lease income from the owned commercial property (malls and school) and income from hospitality projects.

Credit challenges

Geographical concentration risk – At present, the Group has around 32 msf of area being developed in and around the Greater Noida/Noida region, thereby exposing it to geographical concentration risk. However, ICRA notes that the projects cater to a diverse end-user segment.

Exposed to market and project execution risks for recently launched projects – The Group has launched large-sized projects in the recent quarters, thus exposing it to high market risk, given the significant inventory that will be released. The Island by Gaurs and Gaurs Aero projects (comprising Gaur Aero Mall (Pocket 1 Suites), Gaur Aero Mall (Pocket 1 Mall) and Gaur Aero Height (Pocket 2 EWS)) have a pending unsold area of around 2.3 msf.

Exposure to risks and cyclicality in real estate sector in India – The real estate sector is marked by a highly fragmented market structure because of the presence of a large number of players. In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which in turn render the Group's sales vulnerable to any downturn in demand. Further, while the current collections from the leased portfolio is adequate for servicing the lease rental discounting (LRD) loans, the debt protection indicators would remain vulnerable to any changes in occupancies, rent realisations and interest rates.

[4] *Gross Debt includes debt across all segments including Residential, Corporate Debt, Commercial, Retail, Hospitality and LRD*

Liquidity position: Adequate

The Group's liquidity position is adequate. The Group has total cash and equivalents of Rs. 105.4 crore as of November 2022, which provide liquidity buffer. Further, the cash flow adequacy ratio is healthy at 85% as of September 2022, and the Group is expected to generate adequate cash flows to meet its debt obligations over medium term. The repayment of the LRD loans is likely to be adequately covered by the associated rental collections.

Rating sensitivities

Positive factors – Significant increase in scale of operations and higher geographical diversification of revenues, along with improvement in leverage and liquidity position on a sustainable basis, may trigger a rating upgrade.

Negative factors – Negative pressure on the rating could arise if lower-than-expected sales, collections, or execution moderates the Group's operational or financial risk profile or results in higher-than-expected leverage. Additionally, significant unbudgeted debt-funded investment in land or investments in Group companies, leading to deterioration in the liquidity or capital structure will be a negative trigger. Further, a drop in cash flow adequacy ratio below 60%, on a prolonged basis, will be a negative trigger. Downward pressure on the rating may also emerge if there is a material decline in rental collections from the leased portfolio adversely impacting the coverage metrics for a considerable period.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Real Estate Rating Approach - Lease Rental Discounting (LRD) Rating Approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has taken a consolidated view of Gaursons India (P) Ltd. and its subsidiaries given the close business, financial and managerial linkages among the entities.

About the Group

Gaursons India (P) Ltd. (GIPL) was incorporated in 1995 as a private limited company and was later converted into a public limited company in 2000. It is promoted by Mr. B. L. Gaur and his two sons Mr. Rahul Gaur and Mr. Manoj Gaur. Till date, the Group has delivered around ~60 msf of real estate projects in Delhi/NCR, particularly in Ghaziabad and Noida regions. The company and its subsidiaries are currently executing multiple residential, commercial, and retail projects in Ghaziabad, Noida and Greater Noida.

About the company - Gaursons Hi-Tech Infrastructure Private Limited

Gaursons Hi-Tech Infrastructure Private Limited (GHPL) was incorporated in 2006 and is a subsidiary of Gaursons India Ltd, which is the parent company of the Gaursons Group. GHPL was incorporated in January 2006 and is in the business of construction and development of real estate. Currently the company is developing two residential projects - 7th Avenue and Farmhouse 03. In addition, the company has several commercial projects including 7th Avenue High Street (sector 4, Noida Extension), Gaur City Centre (Gaur Chowk, Greater Noida), Gaur City Mall and one Multi Level Parking in Greater Noida. Gaur City Mall is being operated on a leased model.

Key financial indicators (audited)

GIPL – Consolidated	FY2021	FY2022
Operating income	1,514.3	1,519.4
PAT	108.7	198.0
OPBDIT/OI	16.5%	22.6%
PAT/OI	7.2%	13.0%
Total outside liabilities/Tangible net worth (times)	8.1	6.2
Total debt/OPBDIT (times)	7.5	5.3
Interest coverage (times)	1.7	3.1

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; The above financial numbers and ratios reflect analytical adjustments made by ICRA and may not be comparable with GIPL's reported financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Nov 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					December 30, 2022	September 16, 2021	January 04, 2021	April 27, 2020	May 31, 2019
1	**Term Loans**	Long Term	548.77	548.77	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (SO) (Positive)
2	**Cash Credit**	Long Term	75.10	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	-
3	**Non-Fund Based**	Long Term	76.13	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	-
4	**Unallocated**	Long Term	-	-	-	[ICRA]BBB+ (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Fund-based – Cash Credit	Simple
Long-term – Non-fund-based	Very 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 loan I**	March 2022	-	March 2027	94.97	[ICRA]BBB+ (Stable)
NA	**Term loan II**	March 2022	-	March 2027	34.45	[ICRA]BBB+ (Stable)
NA	**Term loan III**	December 2019	-	June 2030	196.45	[ICRA]BBB+ (Stable)
NA	**Term loan IV**	December 2019	-	December 2031	112.90	[ICRA]BBB+ (Stable)
NA	**Term loan V**	November 2022	-	December 2032	110.00	[ICRA]BBB+ (Stable)
NA	**OD/Working Capital Limits**	FY2021	-	-	75.10	[ICRA]BBB+ (Stable)
NA	**Non-Fund Based Limits – Bank Guarantee**	FY2021	-	-	76.13	[ICRA]BBB+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis:

Company Name	GIPL Ownership	Consolidation Approach
Gaursons India (P) Ltd	-	-
Gaursons Hi-Tech Infrastructure Private Limited	100%	Full Consolidation
Gaursons Realty Private Limited	55%	Full Consolidation
Gaursons Sportswood (P) Limited	42%	Full Consolidation
Gaursons Realtech (P) Limited	100%	Full Consolidation
Gaursons Promoters (P) Limited	100%	Full Consolidation
U.P. Township Infra (P) Limited	100%	Full Consolidation
Hare Krishna Tourism Development Pvt Ltd	100%	Full Consolidation
Gaursons Infratech Pvt Ltd	100%	Full Consolidation
Glorious Vanijya Pvt Ltd	100%	Full Consolidation
Atulyam Realtech Pvt Ltd	100%	Full Consolidation
Fastidious Buildmart Pvt Ltd	100%	Full Consolidation
Galaxy Infraheights Pvt Ltd	99%	Full Consolidation
Clarkson Hotels Pvt. Ltd.	42%	Full Consolidation
Gaursons Educational Institutions Private Limited	-	Full Consolidation**

Source: *Annual report FY2022; **the debt is guaranteed by GIPL*

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About ICRA Limited:

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