

March 31, 2017

SNN Properties LLP

Instruments*	Amount Rated (Rs. crore)	Rating Action
Fund based Cash Credit	199.0	[ICRA]BBB+(Stable) / assigned

*Instrument Details are provided in Annexure-1

Rating action

ICRA has assigned the rating of **[ICRA]BBB+** (pronounced as ICRA triple B plus) to the Rs 199-crore long-term bank facilities of SNN Properties LLP (SPL). The outlook on the long-term ratings is **‘Stable’**.

For arriving at the ratings, ICRA has taken a consolidated view of SPL along with its group companies—SNN Builders Private Limited, SNN Homes LLP, SNN Spiritua Developers and Ibrox Real Estate Development Private Limited—since all the companies operate in the same line of business, have operational and financial linkages and share a common management.

Rationale

The rating reaffirmation continues to draw comfort from the strong track record of the promoters and the established position of SNN group in the Bangalore residential real estate market. The group has demonstrated good execution capability with completion of projects within reasonable time and quality. ICRA also positively factors in the steady construction progress in the ongoing projects of the group. The reasonable strength of the ‘SNN Raj’ brand, good location, moderate pricing and wide range of amenities have resulted in healthy sales responses to the ongoing projects during the launch phase. The rating also derives comfort from SNN group’s strategy to sell a reasonable share of its project inventory in the initial stages to provide cover for a large portion of the budgeted costs and the availability of undrawn credit limits.

However, the assigned rating is constrained by the sluggish sales velocity witnessed in all its projects in the current financial year. The sales during the months of November and December 2016 have especially been impacted by the demonetisation of high denomination currency notes. The rating also considers the geographic concentration risk arising from the group’s presence mainly in the micro-markets of South and South-East Bangalore. The group has high level of unsold inventory in certain large-sized ongoing projects such as SNN Raj Eternia, SNN Raj Greenbay and Clermont, leading to high market risk. Certain completed projects such as SNN Raj Serenity also have unsold inventory where sales progress has been sluggish in recent months. The funding risk for the group has been enhanced by the large-sized acquisition of the Clermont project in FY2017, the modest sales velocity in recent months and the intermediate stage of construction of large projects such as SNN Raj Eternia, SNN Raj Greenbay and Clermont. The Clermont project was acquired from Essar Group for a consideration of close to Rs 300 crore; this was funded through a mix of internal accruals and debt drawdown.

Going forward, the group’s ability to improve the sales velocity in the current and completed projects, to collect customer advances and execute the projects in a timely manner; and the extent of investments in land bank and funding pattern for the same would be the key rating sensitivities.

Key rating drivers

Credit strengths

- Established market position of the SNN Group with strong execution capability and track record of timely completion of projects
- Policy of phase-wise execution of projects, with healthy sales levels achieved during the launch phase
- Track record of low debt utilisation

Credit weaknesses

- High execution and market risk relating to large-sized ongoing projects
- Sluggish sales velocity in FY2017 across projects
- Moderately high leverage, which has increased after the acquisition of Clermont project
- Geographic concentration risk and general slowdown in the real estate industry in Bangalore

Description of key rating drivers:

SNN Group is an established player in the residential real estate market in Bangalore with a portfolio of more than 40 projects, covering a total saleable area of 9.3 million sft developed as on date. The group has five ongoing projects, which are being developed across five entities. The projects along with the entity under which they are being undertaken are 'SNN Raj Grandeur' (SNN Builders Private Limited) 'SNN Raj Eternia' (SNN Properties LLP), 'SNN Raj Greenbay' (SNN Homes LLP), 'SNN Raj Spiritua' (SNN Spiritua Developers), and 'Clermont' (Ibrox Real Estate Development Private Limited). SNN Builders Private Limited has also recently completed two projects, SNN Raj Serenity and SNN Raj Neeladri, where the group has some unsold inventory.

SNN Raj Grandeur and SNN Raj Spiritua are in advanced stages of completion and are expected to be completed in FY2018; the latter is a relatively high-end project with ticket size in excess of Rs 1 crore, which has resulted in weak sales velocity in FY2016 and FY2017. In 2014, the group launched SNN Raj Eternia and SNN Raj Greenbay, which are large-sized projects and were developed in a phase wise manner. These projects had witnessed healthy sales response at the time of the launch, resulting in healthy visibility of future cash flows to fund the construction costs and consequently the group has limited reliance on debt. In FY2017, the group acquired the Clermont project, a luxury development spread across 7.7 acres in Hebbal, from the Essar Group for a consideration of close to Rs 300 crore. The outflow for this acquisition has increased the leverage levels, thereby increasing the group's dependence on future sales to meet balance project development costs.

The sales velocity across the projects was moderate in FY2017, which can be attributed to the general slowdown in real estate demand in Bangalore, demonetisation impact as well as relatively higher ticket size in certain projects such as SNN Raj Spiritua and Clermont. The group has an unsold inventory of around 3.0 million sft across all the projects, exposing the group to a significant amount of market risk. Timely completion of projects and improvement in sales velocity would be the key rating sensitivity going forward

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of SPL along with its group companies – SNN Builders Private Limited, SNN Homes LLP, SNN Spiritua Developers and Ibrox Real Estate Development Private Limited – since all the companies operate in the same line of business, have operational and financial linkages and share a common management.

Links to applicable criteria

Rating Methodology for Real Estate Entities
Financial Consolidation and Rating Approach

About the company:

SNN Properties LLP (SPL) is a limited liability partnership firm which is currently engaged in development and construction of a residential project named 'SNN Raj Eternia' at Kudlu, Sarjapur in Bengaluru over an area of 40 acres. Phase I of the project was launched in 2014 and involves construction of 576 residential apartments over close to 10 acres of land with a total saleable area of about 0.94 million sft. Phase II of the project was launched in 2016 and involves construction of 245 residential apartments over 5.5 acres of land with a total saleable area of about 0.41 million sft.

Phase I has a targeted completion date of March 2018 and Phase II is expected to be completed by October 2019. The total estimated development cost for both the phases is Rs 538.5 crore, of which 33% has been incurred as on January 2017. This has been funded by Rs 122.2 crore of debt and the remaining from customer advances and promoter contribution. The company as on as on January 2017 has already sold 57% of the total space at an average realization of Rs. 5,100/sft. SPL had not recognized any revenue till FY2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the Past 3 Years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2017	Month-year & Rating in FY2015	
				March 2017	December 2016	March 2015	November 2014
1	Fund based – Cash Credit	Long Term	199.0	[ICRA]BBB+ (Stable)	[ICRA]BBB; Suspended	[ICRA]BBB (Stable)	[ICRA]BBB- (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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund based – Cash credit	-	-	-	199.0	[ICRA]BBB+ (Stable)

Source: SNN Properties LLP

Name and Contact Details of the Rating Analyst(s):

K. Ravichandran

+91-44 4596 4301

ravichandran@icraindia.com

Shubham Jain

+91 124 4545306

shubhamj@icraindia.com

Mathew Kurian Eranat

+91 80 4332 6415

mathew.eranat@icraindia.com

Nishant Mishra

+91 80 4332 6408

nishant.mishra@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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

© Copyright, 2017, 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.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500