

KSR Properties Private Limited

December 22, 2017

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term-Unallocated Limits	30.00	[ICRA]B (Stable); Assigned
Total	30.00	

Rating action

ICRA has assigned a long-term rating of [ICRA]B (pronounced ICRA B)¹ to the Rs. 30.00-crore² unallocated facilities of KSR Properties Private Limited (KPPL). The outlook on the long-term rating is 'Stable'.

Rationale

The assigned rating takes into account KPPL's exposure to significant execution risk for the ongoing project, KSR Basil, as the project is in its nascent stages of construction with ~24% of the total project cost incurred till November, 2017. The rating factors in the funding risk associated with the project, with construction finance debt yet to be tied up and the significant market risk, given the low level of bookings till date. The rating also takes into account the elevated market and execution risks associated with the company's upcoming project in Devenahalli, North Bangalore which is yet to be launched. ICRA notes the vulnerability of sales to any downturn in real-estate demand and the competition within the region from various established real-estate developers.

The rating, however, factors in the long experience of the promoters spanning over two decades in the real-estate industry and the favourable location of the ongoing project, KSR Basil, in Old Madras Road which is a major suburb in the eastern part of the Bangalore housing various IT/ITeS companies and industrial establishments. The rating also factors in the satisfactory construction progress in the company's on-going residential project, KSR Cordelia, which results in low execution risks. ICRA also notes that all requisite approvals for its ongoing projects are in place.

Going forward, KPPL's ability to successfully tie up debt funding, execute the ongoing project within the budgeted cost and time, and achieve desired sales momentum with timely collections, would be the critical determinants of its credit risk profile.

Outlook: Stable

ICRA believes KSR Properties Private Limited will continue to benefit from the extensive experience of its promoters. The outlook may be revised to 'Positive' if healthy sales progress and speedy execution of ongoing projects results in improved receipt of customer advances. The outlook may be revised to 'Negative' if cash flow from operations is lower than expected, either because of subdued response to the projects or low customer advances or if any significant delay in completion weakens the liquidity position of the company.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publication

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

Experience of promoters in the real-estate industry spanning over two decades - Established in 1999, KPPL is involved in real-estate development with Mr. Ramana Reddy and Mr. Hari Babu as directors. The promoters have long experience spanning across more than two decades in the field of real-estate development and construction.

Favourable location of the entity's ongoing project, KSR Basil - The entity's ongoing project, KSR Basil, is located on Old Madras Road, which is a major suburb in the eastern part of the Bangalore, housing various IT/ITeS companies and industrial establishments coupled with well-developed social infrastructure including international schools, several supermarkets, shopping malls and multi-specialty hospitals.

Low regulatory risk - The ongoing projects of the company, KSR Cordelia and KSR Basil are being developed under the Joint Development Agreement (JDA) mode, wherein the company has 60% and 70% share, respectively in the total saleable area of the projects. The land parcels for both the projects have a clear legal title. Further, all the requisite approvals related to building plan, map etc have been secured, resulting in low regulatory risk.

Credit challenges

High execution and market risk for the project, KSR Basil - As of November, 2017, the company had incurred Rs. 18.1 crore on the project, KSR Basil, which is ~24% of the total project cost, indicating nascent stage of project progress. The company had received bookings for two units out of 241 units in its share, translating into a booking position of ~1% in the project. Significant unsold area in the project exposes it to high market risks.

Exposure to funding risk as debt for the project has not yet been tied up - The total cost of the project, KSR Basil, is envisaged at around Rs. 75.0 crore. The same is proposed to be financed with a mix of term-loan facility of Rs. 30.0 crore, equity contribution of Rs. 20.0 crore and the remaining through customer advances. The financing tie-up for the proposed Rs. 30.0-crore term loan is underway and the promoters have already brought in substantial part of their contribution. Significant dependence on debt to fund the project makes it imperative for KPPL to achieve closure of the same in a timely manner. Also, the company's ability to achieve adequate sales and timely collections from customers remains critical for smooth execution progress and timely servicing of debt and interest obligations.

Elevated market and execution risks for the upcoming project - The company plans to launch a row house project in Devenahalli, North Bangalore. The project is planned to be launched in June, 2018 and is being developed over 1.26 lakh sqft of land comprising 63 row houses. The total cost of the project is envisaged at around Rs. 80.0 crore. As of November, 2017, the company had incurred Rs. 2.0 crore on the project towards advance to the land owner. Owing to the nascent stage of project progress, it carries high market, execution and funding risks.

Exposure to inherent cyclicality in the real-estate industry, coupled with prevailing weak macro-economic scenario - Being a cyclical industry, the real estate is highly dependent on macro-economic factors which make the company's sales vulnerable to any downturn in the real-estate demand and competition within the region from various established developers.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology-Real estate entities](#)

About the company:

KSR Properties Private Limited (KSR) was incorporated in 1999 and Mr. Ramana Reddy Kunduru is the Managing Director. The entity is involved in the business of real-estate development and has completed three projects since its inception. The company's main areas of activities are apartments and luxury villas. At present, the company is involved in execution of two residential apartment projects named KSR Cordelia and KSR Basil in KR Puram and Old Madras Road, respectively in Bangalore. In the future, the company plans to launch one row house project with an aggregate saleable area of 1.41 lakh square feet (sqft).

In FY2017, the company reported a net profit of Rs. 0.5 crore on an operating income of Rs. 14.8 crore compared to a net profit of Rs. 0.6 crore on an operating income of Rs. 12.0 crore in the previous year.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	12.0	14.8
PAT (Rs. crore)	0.6	0.5
OPBDIT/ OI (%)	13.6%	12.8%
RoCE (%)	4.2%	4.4%
Total Debt/ TNW (times)	23.5	24.9
Total Debt/ OPBDIT (times)	10.7	17.7
Interest coverage (times)	5.4	6.7
NWC/ OI (%)	113.2%	205.8%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating December 2017	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Unallocated Limits	Long Term	30.00	-	[ICRA]B (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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated Limits	-	-	-	30.0	[ICRA]B (Stable)

Source: KSR Properties Private Limited

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