

Sumadhura Infracon Private Limited

February 27, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based-Cash Credit	60.0	-	
Fund based-Term Loan	80.0	150.0	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB- (Stable)
Unallocated Limits	165.0	155.0	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB- (Stable)
Total	305.0	305.0	

Rating action

ICRA has upgraded the long-term rating assigned to the Rs.150.0-crore¹ (increased from Rs.80.0-crore) term-loan facilities and Rs.155.00-crore (reduced from Rs.165.0-crore) unallocated limits of Sumadhura Infracon Private Limited (SIPL) from [ICRA]BBB- (pronounced ICRA triple B minus)² to [ICRA]BBB (pronounced ICRA triple B). The outlook on the assigned rating is 'Stable'.

Rationale

The rating upgrade positively factors in the healthy sales progress in the company's on-going and completed projects as evidenced by average sales of 33 units per month during CYFY2017 which lends visibility to future cash flows in the near to medium term. The rating also factors in the satisfactory construction progress across all the ongoing projects supported by timely debt tie-up and adequate customer advances. The steady execution has also enabled the company to garner healthy collection efficiency leading to improved cash flow position. The rating also factors in presence of escrow mechanism for the debt availed to facilitate debt servicing which reduces the fungibility of cash flows. The ratings continue to draw comfort from the brand strength of the Sumadhura group with a track record of more than two decades in the real-estate industry with strong project execution capabilities as demonstrated through completion of 5.7 million square feet (msft) of development. The rating also positively factors in the presence of in-house execution teams and backward integrated nature of operations with the group company, Enliven Decors, supplying part of the building materials which results in better control over cost and quality.

The ratings are, however, constrained by the market and execution risk related to the project, Sumadhura Acropolis, given the significant unsold area in the project and the nascent stage of implementation. ICRA takes note of the elevated market, funding and execution risk associated with the ten upcoming projects encompassing 8.97 million square feet (msft) saleable area, which are yet to be launched. Besides, the rating also takes into account the geographic concentration of the company in the Bengaluru market with most of the past and the upcoming projects being located in East Bengaluru, and its susceptibility to cyclical and regulatory risks inherent in the real estate sector. However, significant launches planned in Hyderabad provides some diversification.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publication

Outlook: Stable

ICRA believes SIPL will continue to benefit from the extensive experience of its promoters in real-estate development in Bengaluru and Hyderabad and moderate brand presence of Sumadhura group. The outlook may be revised to 'Positive' if healthy sales progress and speedy execution of ongoing projects results in improved receipt of customer advances thereby resulting in lower dependence on external debt. 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. Besides, any further significant investment in land bank would also be a key monitorable.

Key rating drivers

Credit strengths

Long experience of promoters in the real-estate industry - Sumadhura Group has a long track record of around two decades in the real estate development in Bengaluru and Hyderabad. In the past 20 years, the group has completed several residential projects, encompassing ~ 5.7 million square feet (msft) of constructed area, reflecting its project-execution capabilities. So far, the group has developed 25 residential projects under the brand name of Sumadhura.

Improvement in sales velocity - The company has achieved average sales velocity of 33 units per month with an average realization of Rs.5350 per sft during CYFY2017 in its ongoing and completed projects. The company has been able to maintain steady collection levels with average collections of Rs.26.8 per month crores during CY2017. At an aggregate level for three ongoing projects (Pranavam, Soham, Lake Breeze and Acropolis), the collections to sale value stood at 67% as against construction progress of 48% as of December 2017.

Satisfactory construction progress – The Company has completed three projects namely Shikharam, Silver Ripples and Essenza during CY2017 within reasonable time and quality, supported by timely debt tie ups and adequate customer advances and three more projects namely Lake Breeze, Pranavam and Soham are in advanced stage of construction progress and are expected to be completed shortly.

Pre-payment of debt obligations and reduction in interest rates provide comfort; presence of escrow mechanism reduces fungibility risks – SIPL has demonstrated a track record of prepaying its debt through accelerated escrow mechanism out of the surpluses generated from of its projects. Moreover, reduction in interest rates for the recently contracted debt for new projects is expected to lower the interest outgo going forward. The company also maintains a separate escrow account for servicing its debt obligations. The presence of an escrow mechanism provides comfort in form of restricting cash flow fungibility.

Credit challenges

Moderate cover of committed receivables over cost obligations- As of December 2017, the pending collections from the area sold provides a cover of 40% over the pending cost to be incurred and debt outstanding for the ongoing projects, with a major portion of the collections being deployed towards upcoming projects. Going forward, the management's ability to raise the planned advances from customers and to maintain the sales velocity will remain crucial.

Moderate market and execution risks for the project, Sumadhura Acropolis – As of December 2017, the company had incurred Rs. 70.0 crore on the project, Sumadhura Acropolis which is ~19% of the total project cost, indicating nascent stage of project progress. The company has received bookings for 40% of the total saleable area in the project as of December 2017. Significant unsold area and initial stage of implementation of the project exposes it to moderate market and execution risks.

High market, execution and regulatory risk for upcoming projects - The Company plans to launch ten projects in the next three fiscals with a total saleable area of 8.97 msft. Out of the ten projects, three are planned to be developed on company's own land parcels, the acquisition of which are under process and the remaining are planned to be developed under Joint Development Agreement (JDA) mode. The total cost for the upcoming projects is around Rs. 2448 crore. The timely launch of the projects would be dependent on the firm's ability to get approvals, tie-up debt as well as bring desired equity for the same. The market, regulatory and execution risk for the projects remains high given the nascent stage of project implementation.

Exposure to inherent cyclicity 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:

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 the company while the balance is held by his family members. The company is primarily involved in residential development and is currently executing three projects with a total built-up area of 1.7 msft in the Bengaluru and Hyderabad. It plans to launch ten projects with a total saleable area of 8.6 msft in next three fiscals.

Sumadhura Group commenced its activities in real estate development in the year 1997, under the leadership of Mr. G Madhusudhan, and under the banner of M/s Vijetha Constructions. Under the banner of Vijetha, the firm completed 16 residential projects in Hyderabad. The promoters then floated a private limited company, Sumadhura Constructions Private Limited in 2001 and another partnership concern, Sumadhura Constructions in 2005 and constructed several residential and commercial projects under brand name of Sumadhura. In 2012, the operations of Vijetha Constructions and Sumadhura Construction were merged to form Sumadhura Infracon Private Limited. Since 1997, the Sumadhura Group has developed around 42 residential projects with a total built-up area (BUA) of 5.7 msft.

In FY2017, the company reported a net profit of Rs. 25.8 crore on an operating income of Rs. 272.7 crore compared to a net profit of Rs. 18.1 crore on an operating income of Rs. 245.8 crore in the previous year.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	245.8	272.7
PAT (Rs. crore)	18.1	25.8
OPBDIT/ OI (%)	18.0%	21.7%
RoCE (%)	30.9%	31.4%
Total Debt/ TNW (times)	3.1	1.6
Total Debt/ OPBDIT (times)	3.1	1.9
Interest coverage (times)	3.1	3.6
NWC/ OI (%)	64.2%	59.0%

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	Date & Rating in FY2017		Date & Rating in FY2016	Date & Rating in FY2015
					Aug 04, 2016	Aug 01, 2016		
1 Cash Credit	Long Term	-	-	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-
2 Term Loan	Long Term	150.0	84.5	[ICRA]BBB (Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-
3 Unallocated Limits	Long Term	155.0	-	[ICRA]BBB (Stable)	[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: 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	07-Jul-17	11.25%	Feb-20	100	[ICRA]BBB (Stable)
NA	Term Loan 2	27-Jan-17	11.35%	Jun-22	50.0	[ICRA]BBB (Stable)
NA	Unallocated Limits	-	-	-	155.00	[ICRA]BBB (Stable)

Source: Sumdhura Infracon Private Limited

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