

Pramuk Infracon LLP

April 30, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term- Term Loan Limits	90.00	[ICRA]BB (Stable); Assigned
Long term- Unallocated Limits	10.00	[ICRA]BB (Stable); Assigned
Total	100.00	

Rating action

ICRA has assigned a long-term rating of [ICRA]BB (pronounced ICRA double B)¹ to the Rs. 90.00-crore² term loan limits and Rs.10.00-crore unallocated limits of Pramuk Infracon LLP (PIL). The outlook on the long-term rating is 'Stable'.

Rationale

The assigned rating favourably factors in the extensive experience of the promoters spanning over four decades in the real-estate industry and the favourable location of the ongoing project, MM Meridian Heights, in Bengaluru, with good connectivity, well-developed social infrastructure and accessibility. In addition, the company's asset light policy of developing projects under Joint Development Agreement (JDA), limits upfront capital commitment in the projects. The rating assigned also takes comfort from the relatively low repayment obligations falling due in the near to medium term, with presence of relatively long moratorium period till FY2022 for the debt availed, enhancing the financial flexibility to an extent.

The rating is, however, constrained by PIL's exposure to significant market risk, with around 31% sales achieved in its ongoing project, which is further magnified due to the luxury nature and large ticket size of the units. The rating is also constrained by the large size of the project, relative to past real estate projects undertaken by the company, and the vulnerability to execution risks, given the intermediate stages of construction. ICRA notes that the financial closure for the project has been achieved; however, a substantial portion of the pending construction cost is to be met through customer advances. Hence, healthy incremental sales and collection efficiency will be critical for completing the project in a timely manner. Besides, the rating also takes into account the high competitive intensity of the real estate market in the region.

Going forward, PIL's ability to execute the ongoing project within the budgeted cost and time and to achieve the desired sales momentum would be the critical determinants of its credit risk profile.

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

Outlook: Stable

ICRA believes Pramuk Infracon LLP will continue to benefit from the extensive experience of its promoters and low repayment obligations in the near term. The outlook may be revised to 'Positive' if healthy sales progress and speedy execution of ongoing projects result 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 firm.

Key rating drivers

Credit strengths

Experience of promoters in the real-estate industry spanning over four decades - Established in 2011, PIL is engaged in real-estate development with Mr. SKB Prasad and Mr. N Keshavmurthy as partners. The promoters have long experience in the field of real estate development and construction through other group concerns. The promoters in their personal capacity have completed several projects across Bengaluru.

Favourable location of the entity's only ongoing project - The entity's ongoing project, Pramuk MM Meridian Heights, is located on KR Road in Jayanagar, which is an affluent residential and commercial neighbourhood in South Bengaluru. The project site has close access to well-developed social infrastructure including metro station, international schools, several supermarkets, shopping malls and multi-specialty hospitals.

Low regulatory risk - The project is being developed under JDA mode such that the firm has 63% share in the total saleable area. As per the JDA agreement, the saleable area is divided between the company and the land owner, such that the firm has 76% share in residential space and 29% share in commercial space. The land parcel admeasuring 1,13,304 square feet (sqft) has been acquired by the land owner and has a clear legal title. Further, all the requisite approvals related to building plan, map etc. have been secured, resulting in low regulatory risk.

Low repayment obligation in the near term - The company has availed a term loan of Rs.90.00 crore to part fund the construction cost for its ongoing project, Pramuk MM Meridian Heights. Although, the repayment of the term loan is linked to the collection schedule of the project based on a cash sweep mechanism, the scheduled repayment is in August 2022 (bullet payment), post completion of moratorium period of 72 months from the date of first disbursement. Presence of long-duration moratorium eases the liquidity position in the near term.

Credit challenges

Exposure to high market risk with significant unsold area in the project - The company's exposure to market risk for the project, Pramuk MM Meridian Heights, remains high given the low level of bookings achieved till date (~31% as of March 2018). The risk is further accentuated by the luxury nature and large ticket size of the units in the project, thereby limiting target customers.

Moderate project execution and funding risk related to the project - The total cost of the project is envisaged at around Rs. 225.5 crore, which is planned to be financed through a mix of term loan facility to the tune of Rs. 90.00 crore, promoter's contribution of ~Rs.14.00 crore and the remaining through customer advances. As on March 2018, ~around 48% of the project cost had been incurred, indicating intermediate stage of construction progress, leading to execution risks, inherent to such projects. Also, a significant portion of the pending cost is planned to be met through customer advances, which exposes it to funding risk in case of inadequate sales and collections.

Exposure to inherent cyclicity in the real-estate industry coupled with prevailing weak macro-economic scenario - Being a cyclical industry, real estate is highly dependent on macro-economic factors that make the company's sales vulnerable to any downturn in the real-estate demand and the 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:

Pramuk Infracon LLP is a Bengaluru-based real-estate firm engaged in the development of residential and commercial projects. The firm was incorporated in 2011 with Mr. SKB Prasad and Mr. N Keshavmurthy as partners. The entity is into the business of real estate development and has completed two projects since its inception with a total built-up area of 6.3 lakh square feet. Presently, the firm is executing its third mixed-use project named Pramuk MM Meridian Heights in KR Road, Jayanagar, Bengaluru. The construction of the project started in June 2015 and is likely to be completed by June 2019. The project consists of two residential towers, comprising of 2B+25 floors each with 132 residential units and one commercial tower, comprising of 3B+7 floors with total area of 3,16,731 square feet (sqft).

In FY2017, the firm reported a net profit of Rs. 0.9-crore on an operating income of Rs. 36.9-crore, as compared to a net profit of Rs. 1.4-crore on an operating income of Rs. 23.1-crore in the previous year.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	23.1	36.9
PAT (Rs. crore)	1.4	0.9
OPBDIT/ OI (%)	37.7%	20.3%
RoCE (%)	16.0%	12.7%
Total Debt/ TNW (times)	4.1	6.6
Total Debt/ OPBDIT (times)	5.5	6.9
Interest coverage (times)	1.3	1.2
NWC/ OI (%)	243.6%	149.1%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 2018 (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Term Loan	Long Term	90.00	66.00	April 2018 [ICRA]BB (Stable)	-	-	-
2 Unallocated Limits	Long Term	10.00	-	[ICRA]BB (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	June-2017	-	Aug-2022	90.00	[ICRA]BB (Stable)
	Unallocated Limits	-	-	-	10.00	[ICRA]BB (Stable)

Source: Pramuk Infracon LLP

ANALYST CONTACTS

K Ravichandran

+91 44 45964301

ravichandran@icraindia.com

R Srinivasan

+91 44 45964315

r.srinivasan@icraindia.com

Ritika Periwal

+91 80 49225562

ritika.mundhra@icraindia.com

Pavan Ramesh

+91 80 49225572

pavan.ramesh@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

naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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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) 6606 9999

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