

Ramakrishna Housing (P) Limited

June 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount(Rs. Crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund based - Term Loans	205.00	315.00	[ICRA]BBB- (Stable); Assigned/Outstanding
Total	205.00	315.00	

Rating action

ICRA has assigned the long-term rating to the Rs. 315.00 crore¹ (revised from Rs. 205 crore) fund based term loan facilities of Ramakrishna Housing (P) Limited (RHPL / the company)² at [ICRA]BBB- (pronounced ICRA triple B minus). The outlook on the long-term rating is 'Stable'.

Rationale

The reaffirmation of the rating factors in the better than anticipated construction progress and improved committed cash flow adequacy of RHPL. The company achieved construction progress of 51% of the total project cost in the residential project, *Venuzia* and is on track to complete the project as per the targeted timeline of September 2019. In October 2017, the company launched a commercial tower *TechnoTowerz* (1.11 million sft of office space) adjacent to the *Venuzia* project under the Designated Technology Park (DTP) scheme of Government of Andhra Pradesh (GoAP) wherein, the GoAP would subsidise 50% of the rental to the IT companies which setup offices in the State and also provide 50% rental subsidy to the owners for the unoccupied built-up space till 70% occupancy was achieved or 36 months from the date of handover of the project whichever is earlier. Further, RHPL has also provided rental guarantee at 50% of the expected rental value during construction phase to its customers making 100% upfront payment for the area purchased till the time of handover. As a result, the commercial tower has received a favorable market response as reflected in healthy booking of 39% of the total saleable area (0.43 million sft) within four months from the launch. The commercial tower involves total cost of Rs. 308.22 crore which is proposed to be funded through Rs. 158.22 crore customer advances, Rs. 110 crore debt and Rs. 40 crore promoters' contribution. Overall, the committed cash flow adequacy in terms of [(pending receivables)/(pending construction cost + debt outstanding) is comfortable at 76%.

Notwithstanding the limited experience of the promoters, the ratings continue to draw comfort from the strong management and execution team through employment of Tata Consulting Engineers Limited (rated [ICRA]AA/Stable/A1+) as Project Management Consultant as well as other reputed consultants for design, architecture, etc. Further, the project has a locational advantage given its presence on the Vijayawada -Guntur National Highway and is well connected with both Guntur and Vijayawada, two prominent cities in Andhra Pradesh.

The rating is, however, constrained by the low collections in the *Venuzia* project, with collections as a percentage of sale value at 24% as against construction progress of 43% on account of lower receipts demanded from customers given the higher cost incurred in the initial stages of the project towards basement and piling works, whereas the payment schedule

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 Publications

for customers is linked largely to physical progress after the initial works. Further, the sales velocity in the *Venuzia* project has declined to 9 units per month in CY2017 as against 59 units per month in the first six months of the launch since the sales were higher at discounted prices during the pre-launch. Further, the risk of cancellation for bookings made in 10mFY2018 is high given that the average collection per booking is low at an average of Rs. 0.05 crore. The sales were also weaker in CY2017 as the company did not undertake any major marketing campaign since the company was largely focusing on the commercial towers project. The rating is also constrained by the execution risk in the commercial towers project as only 21% of the project has been incurred till January 2018. ICRA also notes that the company is exposed to high project and geographic concentration risk as its execution is only limited to two projects at a single location i.e. at Vijayawada.

Going forward, the ability of the company to improve the collections, maintain the sales velocity, timely complete both the residential and commercial projects without cost overruns would be the key rating sensitivities.

Outlook: Stable

ICRA believes RHPL will continue to benefit from the strong project management team for both the residential and commercial projects resulting in low execution risks. The outlook may be revised to 'Positive' if there is a significant improvement in the collections, sustained improvement in the sales velocity without any decrease in realisations in both the projects. The outlook may be revised to 'Negative' if there is slippage in the collection efficiency, lower than expected sales velocity or slower than expected construction progress resulting in delay in execution.

Key rating drivers

Credit strengths

Healthy construction progress in the *Venuzia* – The construction progress in the *Venuzia* project is healthy given that it has incurred about 51% of the total project cost of Rs. 645.71 crore as on February 2018 as against 11% of the total cost as on July 2016. The company is on track to complete project as per its estimated date i.e. September 2019.

Positive market response for *TechnoTowerz* – The company launched a commercial project, adjacent to the *Venuzia* project, named *TechnoTowerz* (total saleable area of 1.11 million sft.) in October 2017 under the DTP scheme introduced by the GoAP wherein the state government would subsidise 50% of the rental to the IT companies which setup offices in the State and also provide 50% rental subsidy to the owners for the unoccupied built-up space till 70% occupancy was achieved or 36 months from the date of handover of the project whichever is earlier. Further, RHPL also offered a rental guarantee scheme to its customers paying 100% upfront advance, during the construction of the project. By Jan 25, 2018, i.e. within 4 months of the launch, the company was able to sell nearly 39% of the total saleable area (0.43 million sft.) owing to the aforementioned schemes by GoAP and RHPL.

Limited funding risk in the commercial project – The commercial towers project cost is funded by 10% equity and 90% customer advances. Given the healthy bookings in the project, the committed cash flows from customer advances are sufficient to cover the project cost of Rs. 305.28 crore resulting in low funding risk. Therefore, ability of the company to raise demand and collect the advances would remain key.

Healthy committed cash flow adequacy and reputed construction management team– Overall, the committed cash flow adequacy is comfortable at 76%. For the *Venuzia* project, the cost yet to be incurred is Rs. 369.51 crore as against receivables of Rs. 292.24 crore and undrawn debt of Rs. 89.20 crore totaling to Rs. 381.44 crore (103% of cost to be incurred) as on Dec 2017. Since the receivables and undrawn debt is more than the cost to be incurred, there is low funding risk.

Locational advantage of the projects – The project is situated at Kaza Village, on NH 5, adjacent to Nargarjuna University campus on Vijayawada-Guntur highway and is well connected with both Guntur and Vijayawada two prominent cities in Andhra Pradesh. Amaravati, the new capital region of AP is being developed between Vijayawada and Guntur. The project is 4 km away from new capital region and Guntur and 17 km away from Vijayawada.

Credit weaknesses

Weak collections as percentage of sale value over the past 18 months – The collections as a percentage of sale value, in the Venuzia project, is low at about 24% of the sale value (78% as percentage of demand raised) as on Jan 2018 while the construction progress is about 43%. The weak collections in relation to construction progress is on account of lower receipts demanded from the customers given the higher cost incurred in the initial stages of the project towards basement and piling works for the high-rise towers, whereas the payment schedule for customers is linked largely to the physical progress.

Deceleration in sales velocity for residential projects in FY2018 – There has been an expected drop in the sales velocity in the project from 59 units per month till Jul'16 to 14 units per months between Jul'16 and Jan'18. The abnormally high sales velocity during H1 CY2016 was on account of various schemes offered by the company during the time of launch phase of the project when nearly 406 units were booked during 7m CY2016. Further, the sales were also weaker in CY2017 since the company did not undertake any major marketing campaigns in CY2017. Also, the risk of cancellation for bookings made in 10mFY2018 is high given that the average collection per booking is Rs. 0.05 crore.

High execution risk given the nascent stage of execution in *TechnoTowerz* – The company had started construction of the commercial towers in October 2017. As on February 2018, the company has incurred about Rs. 95.82 crore out of the total project cost of Rs. 308.22 crore, which translates to financial progress of 31% of the TPC. Since the project is still in initial stages, there exists execution risks. However, sizeable committed receivables mitigates the risk to an extent.

High geographic and project concentration risk – RHPL remains exposed to geographic and project concentration risk as the project portfolio of the company consists of only two projects – *Venuzia* and *TechnoTowerz*. Further, both these projects are located in Vijayawada. Going forward, the company's operations are likely to remain restricted largely to Vijayawada and parts of Andhra Pradesh.

Regulatory risks and inherent cyclicality in the sector – The real estate sector is vulnerable to regulatory changes as observed in the past one year with introduction of Goods and Services Tax (GST) and Real Estate Regulatory Authority (RERA) Act which have affected the sales velocity and collections of many incumbents to an extent. Further, the compliance costs for the company due to GST and RERA are expected to increase. The company remains exposed to inherent cyclicality in the residential real estate industry.

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 for Real Estate Entities](#)

About the company:

Ramakrishna Housing Private Limited was incorporated in January 2014 and is promoted by Mr. K.P.V. Anjani Kumar and his wife Mrs. K.C.V. Durga Devi. The promoters have earlier developed several residential projects under different group entities namely, Ramakrishna Townships & Projects, and Ramakrishna Housing (partnership firm). Ramakrishna Group

has acquired 53 acres to construct and develop a township in Kaza, Mangalagiri Mandal of Guntur District. The company is constructing 25 high-rise apartments ranging from 24 to 31 floors in a phased manner in the name of – ‘Ramakrishna Venuzia’. Phase-I, consists of 8 towers; Phase II, consists of 9 towers; and Phase III, consists of 8 towers. Initially, under Phase I, the company is constructing 6 out of 8 towers, namely, Tower No. 2, 6, 8 and 3, 4, 5 with a total saleable area of 21.50 lakh sft. The Total Project Cost (TPC) of Rs. 645.71 crore is proposed to be funded through Rs. 100 crore (15% of TPC) of equity, Rs. 205 crore (32%) of project loan, Rs. 16 crore (2%) of equipment finance loan and remaining Rs. 324.71 crore (50%) by way of customer advances. The construction activity has commenced during Q1FY2017. Till February 2018, RHPL incurred Rs. 329.63 crore which is funded through Rs. 82.20 crore promoters’ contribution, Rs.140.00 crore debt and Rs. 107.61 crore customer advances.

The company is also, currently, developing a commercial project named ‘Ramakrishna TechnoTowerz’ adjacent to the Venuzia project. The project involves construction of the two identical towers, each having 22 floors with an aggregate saleable area of 11.14 lakh sft. The project has received all approvals and the company proposes to complete the project by December 2018. The total project cost is Rs. 308.22 crore which is expected to be funded by Rs. 40.00 crore equity (13%), debt of Rs. 110 crore (36%) and Rs. 158.22 crore (51%) customer advances. Till February 2018, RHPL incurred Rs. 95.82 crore towards this project which is funded through Rs. 35.42 crore promoters’ contribution and the remaining Rs. 60.40 crore customer advances.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	25.5	33.0
PAT (Rs. crore)	1.3	2.1
OPBDIT/ OI (%)	9.3%	8.7%
RoCE (%)	6.1%	3.7%
Total Debt/ TNW (times)	0.7	1.4
Total Debt/ OPBDIT (times)	10.7	21.4
Interest coverage (times)	21.6	12.7
NWC/ OI (%)	223.3%	308.4%

Source: Ramakrishna Housing Private Limited

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 (Rs Crore)	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				Jun 2018	Apr 2018	NA	Oct 2016	NA	
1	Term Loans	205.00	115.80	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	NA	-	NA	
2	Term Loan	110.00	0.00	[ICRA]BBB- (Stable)	NA	NA	NA	NA	
3	Unallocated Limits	-	-	NA	NA	NA	[ICRA]BB+ (Stable)	NA	

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	Nov 2016	12.50%	FY2022	100.00	[ICRA]BBB-(Stable)
NA	Term Loan - 2	Aug 2017	12.25%	FY2022	105.00	[ICRA] BBB-(Stable)
NA	Term Loan - 3	Jun 2018	13.00%	FY2024	110.00	[ICRA] BBB-(Stable)

Source: Ramakrishna Housing Private Limited

ANALYST CONTACTS

Anjan D Ghosh

+91 22 6114 3407

aghosh@icraindia.com

Rajeshwar Burla

+91 40 4067 6527

rajeshwar.burla@icraindia.com

Shubham Jain

+91 124 4545 306

shubham.jain@icraindia.com

Ruthwik Reddy C

+91 40 4067 6532

ruthwik.c@icraindia.com

RELATIONSHIP CONTACT

Jayanata Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

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

info@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

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

© Copyright, 2018 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