Puravankara Limited

December 21, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	2285.90	2499.00	[ICRA]BBB+ (Stable); Reaffirmed
Long-term Unallocated	213.10	0.00	
Long-term/Short-term (Interchangeable) – Unallocated	1.00	1.00	[ICRA]BBB+ (Stable)/[ICRA]A2; Reaffirmed
Total	**2500.00**	**2500.00**	

* Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation takes into account Puravankara's established position, strong brand name (Purva and Provident) and demonstrated project execution capabilities with completion of 37.35 million sq ft of development area till date. These strengths have translated into healthy sales growth from the ongoing projects; the company witnessed 50% growth in pre-sales value in FY2018 and 27% growth in pre-sales value in H1 FY2019. The balance receivable from the sold area cover over the pending cost and the debt outstanding is comfortable at 43% as on September 30, 2018 an increase from 38% as on March 31, 2017, on the back of improved sales.

The assigned ratings are constrained by the increase in debt levels from Rs 2,139 crore as on March 31, 2017 to Rs 2,642 crore as on September 30, 2018 on account of increase in land bank/JDA investments and greater construction spend with lag in corresponding collections. High deliveries coupled with tepid sales velocity in projects in the cities of Chennai and Coimbatore in the recent past have resulted in high completed inventory of 2.4 million sq ft as on September 30, 2018. The interest costs for the debt availed to fund the inventory, in the absence of commensurate growth in sales realisation have resulted in low profitability for the completed project inventory. High investments towards land made by the company result in moderate cover of the 'balance receivable + unsold value (for launched areas)' over the pending cost and debt outstanding of 123%. The company is also exposed to external factors such as the inherent cyclicality in the real estate industry and regulatory risks.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that the company will continue to benefit from its established market position. The outlook may be revised to Positive if an improvement in sales, collections and profitability strengthens the overall financial profile of the company. The outlook may be revised to 'Negative' if lower-than-expected pre-sales and collections, and high land banking investments result in material increase in leverage levels.

Key rating drivers

Credit strengths

Established position and brand name: Purvankara has a track record of over four decades in the residential real estate market. It has presence in both premium and affordable housing segments under the brands – Puravankara and Provident, respectively. The Group has demonstrated project execution capabilities with completion of 37.35 million square feet (msft) of development supported by engagement of reputed civil contractors such as L&T, Tata Projects, Capacite and JMC.

Improvement in sales velocity: There has been an improvement in sales velocity of the company with a sales volumegrowth of 52% YoY in FY2018 and 27% in H1 FY2019. The company has seen sales momentum in the completed and nearing completion inventory in the last few quarters.

Healthy sales in the newly launched projects provide cash flow visibility: The company in its new project launches has been selling a high proportion (over 3/4th) of the launched inventory within the first quarter of launch mitigating market risks and providing healthy cash flow visibility. The company in its recent large project launches, Provident Park square Phase-I, Bengaluru and Provident Adora De Goa, has sold over 80% of the launched inventory within the first quarter of launch. The balance receivable from the sold area cover over the pending cost and the debt outstanding is comfortable at 43% as on September 30, 2018, on the back of improved sales.

Credit challenges

Modest return indicators: Moderate operating profit margins result in low Return on capital employed in the range of 8.25-9.25% during the period FY2017-H1 FY2019.

High unsold inventory in completed project portfolio: Low sales velocity in the projects in Chennai and Coimbatore and a couple of larger sized projects in Bangalore in the past has resulted in accumulation of unsold stock in completed projects. As of September 2018, the company has a completed inventory of 2.4 million sq ft on account of the high project deliveries in FY2018 and moderate sales velocity in the older projects. Holding costs in the form of interest in the absence of commensurate sales realisation growth has resulted in low profitability for the completed project inventory.

Increase in debt and leverage levels: The company has moderately high debt levels relative to the ongoing and completed project portfolio with the increase in debt levels from Rs 2,139 crore as on March 31, 2017 to Rs 2,642 crore as on September 30, 2018. The company has scheduled debt-repayment obligations of over Rs. 1,200 crore due over the period H2FY2019–FY2021. Nonetheless, the company has pending collections from completed sold area amounting to Rs 413 crore and unsold inventory from completed projects amounting to Rs 1,286 crore as on September 30, 2018. The company has been able to sell Rs 688 crore of completed and nearing completed inventory in FY2018 and Rs 238 crore in H1 FY2019. Timely liquidation of the completed inventory can support the debt repayment obligations. The group has a large project pipeline of 12.19 msf (Purva share of 6.81 msf) of projects under development which expose the company to funding and execution risks. Additionally, the company also plans to develop a 1.4 msf commercial property in 49:51 JV with Keppel Land Limited under Keppel Puravankara Development Private Limited, however, no incremental funding requirement from Puravankara is envisaged for the project.

Liquidity Position:

The company had cash and bank balances of Rs. 185 crore as on September 30, 2018, on a consolidated basis apart from undrawn limits of Rs 663.62 crore available for drawdown, with a large proportion available for immediate draw down. The company maintains one month DSRA in several of its outstanding loans providing cushion for debt servicing.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Puravankara Limited. As on March 31, 2018, the Company had 24 subsidiaries and 6 JVs, that are enlisted in Annexure-2.

About the company:

PL was incorporated in 1986 as Puravankara Constructions Private Limited in Mumbai. The name was changed to Puravankara Projects Limited and the company was converted into a public limited company in 1992; subsequently being listed on the BSE and the NSE in August 2007. Puravankara Projects Limited was renamed as Puravankara Limited on December 21, 2016. PVL is promoted by Mr. Ravi Puravankara (Chairman), who holds 75% of equity shares in the company. PVL, apart from Provident Housing Limited, has various other joint ventures/subsidiaries, including a wholly-owned construction company (Starworth Infrastructure and Construction Limited).

The Puravankara Group is involved in real estate development with residential assets comprising majority of its portfolio. It is present in both the premium and the affordable housing segments under the brands — Purva and Provident respectively. The Group has major operations in Bangalore with considerable presence in other South Indian cities of Chennai, Kochi and Hyderabad apart from Pune. As of September 30, 2018, PVL completed 67 residential projects and four commercial projects spanning 37.35 msf. Currently, the company is developing 22.31 msf area. It also has land assets of 69.65 msf.

Key financial indicators (consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	1428.5	1504.9
PAT (Rs. crore)	127.1	91.4
OPBDIT/OI (%)	29.95%	26.42%
RoCE (%)	9.25%	8.27%
Total Debt/TNW (times)	0.86	1.00
Total Debt/OPBDIT (times)	4.77	6.03
Interest coverage (times)	1.71	1.58

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating December 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 October 2017	Date & Rating in FY2017 March 2017	Date & Rating in FY2016 March 2016
1	Fund Based Limits	Long Term	2499.00	2040.02	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB (stable)	[ICRA]BBB (stable)
2	Unallocated Limits	Long Term/ Short Term	1.00	0.00	[ICRA]BBB+ (stable) /[ICRA]A2	[ICRA]BBB+ (stable) /[ICRA]A2	[ICRA]BBB (stable) /[ICRA]A3+	[ICRA]BBB (stable) /[ICRA]A3+
3	Unallocated Limits	Long Term	0.00	0.00	-	[ICRA]BBB+ (stable)	[ICRA]BBB (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	March 2016	-	March 2024	2499.00	[ICRA]BBB+ (Stable)
NA	Unallocated Limits	NA	NA	NA	1.00	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: Puravankara Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Prudential Housing and Infrastructure Development Limited	100.00%	Full Consolidation
Centurions Housing and Constructions Private Limited	100.00%	Full Consolidation
Melmont Construction Private Limited	100.00%	Full Consolidation
Purva Realities Private Limited	100.00%	Full Consolidation
Grand Hills Developments Private Limited	100.00%	Full Consolidation
Purva Ruby Properties Private Limited	100.00%	Full Consolidation
Purva Sapphire Land Private Limited	100.00%	Full Consolidation
Purva Star Properties Private Limited	100.00%	Full Consolidation
Nile Developers Private Limited	100.00%	Full Consolidation
Vaigai Developers Private Limited	100.00%	Full Consolidation
Starworth Infrastructure and Construction Limited	100.00%	Full Consolidation
Provident Housing Limited	100.00%	Full Consolidation
Jaganmata Property Developers Private Limited	100.00%	Full Consolidation
Jyothishmati Business Centers Private Limited	100.00%	Full Consolidation
Vagishwari Land Developers Private Limited	100.00%	Full Consolidation
Varishtha Property Developers Private Limited	100.00%	Full Consolidation
Purva Pine Private Limited	100.00%	Full Consolidation
Purva Oak Private Limited	100.00%	Full Consolidation
Provident Meryta Private Limited	100.00%	Full Consolidation
Argan Properties Private Limited	100.00%	Full Consolidation
Provident Cedar Private Limited	100.00%	Full Consolidation
Welworth Lanka Holding Private Limited	100.00%	Full Consolidation
Welworth Lanka Private Limited	100.00%	Full Consolidation
IBID Home Private Limited	100.00%	Full Consolidation
Purva Good Earth Properties Private Limited	25.00%	Equity Method
Pune Projects LLP	32.00%	Equity Method
Keppel Puravankara Development Private Limited	49.00%	Equity Method
Propmart Technologies Limited	32.83%	Equity Method
Sobha Puravankara Aviation Private Limited	49.75%	Equity Method
Whitefield Ventures	42.00%	Equity Method

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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

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