

## Sumadhura Infracon Private Limited

December 26, 2018

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund based-Term Loan	150.0	305.0	[ICRA]BBB(Positive) reaffirmed; outlook revised from stable
Unallocated Limits	155.0	-	-
<b>Total</b>	<b>305.0</b>	<b>305.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in outlook considers the continued improvement in sales and construction progress witnessed across the projects of the company, lending visibility to cash flows in the near-to-medium term. The rating takes into account the established track record of Sumadhura Group in the Bangalore real estate market, with experience of more than two decades and completion of more than 5.7 million square feet (msft) of real estate development. The rating further draws comfort from the favourable location of the ongoing projects, enhancing the marketability of the projects. The rating also factors in presence of escrow mechanism for the project debt with sweep mechanism, which will support prepayment of the debt.

The rating is, however, constrained by the company's moderate scale of operations, with four projects under development in Bangalore and Hyderabad. The nascent stage of three of the projects launched in CY2019 results in modest cover of receivables from sold area over the pending costs and debt outstanding; nonetheless, ICRA notes that the group has demonstrated healthy saleability in its past and ongoing projects. The group has an aggressive launch pipeline, which is expected to keep the execution and funding risks high over the medium term. While majority of the investments towards land for the upcoming projects have already been incurred, timely receipt of approvals and adequate debt sanction will be a key rating sensitivity.

### Outlook: Positive

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 rating may be upgraded in case of better-than-expected sales performance in ongoing projects and improvement in scale of projects, resulting in improved cash flows. The outlook may be revised to 'Negative' if cash flow from operations is lower than expected, either because of subdued sales or if any significant delay in completion weakens the liquidity position of the company. Besides, timely launches of upcoming projects and magnitude of project debt availed for the same, would also be a key monitorable.

### Key rating drivers

### Credit strengths

**Long standing experience of promoters** - 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 more than 5.7 million square feet (msft) of constructed area, reflecting its project execution capabilities. So far, the group has developed 27 residential projects under the brand name of Sumadhura.

**Healthy sales and construction progress** - The company continues to showcase healthy sales and construction progress across its projects, lending visibility to future cash flows in the near-to-medium term. During FY2018, SIPL has sold 0.65 msf of saleable area with a total sale value of Rs. 359 crores. There has been further improvement in sales value during the first half of FY2019.

**Favourable location** – The ongoing projects, located in Bangalore and Hyderabad, are close to some of the key commercial areas of the city, resulting in healthy sales velocity.

**Presence of escrow with accelerated sweep-in mechanism**– Though SIPL’s project loans have adequate moratorium and extended maturity profile, the company has demonstrated a track record of prepaying its debt through accelerated sweep mechanism of the escrowed project collections.

## Credit challenges

**Moderate scale of operations** – The company has moderate scale of operations with four projects under development in Bangalore and Hyderabad. This results in high geographic concentration risk and makes the company’s sales vulnerable to any downturn in the real-estate demand and competition from various established developers in these locations.

**Modest cover of receivables from sold area** - As of September 30, 2018, the pending collections from the area sold provides a cover of 41% over the pending cost to be incurred and debt outstanding for the ongoing projects. Consequently, there is high dependence on incremental sales to support the funding requirements in the ongoing projects. Nonetheless, ICRA notes that the company has demonstrated healthy saleability in its ongoing projects.

**Exposure to funding and execution risk in the upcoming projects** – The company has aggressive plans for upcoming projects expected to be launched in the next three-four years. Even though, majority of the investments towards land for the upcoming projects have already been incurred, timely receipt of approvals and adequate debt sanction for the new projects will be key rating monitorable.

## Liquidity Position:

SIPL’s operational cash inflows over the next twelve months are expected to be adequate to cover the budgeted construction costs over this period. In addition, the company will have access to undrawn and sanctioned debt limits of Rs 195.0 crore as on September 2018 to support the funding requirements, including towards investments in land for upcoming projects. The company has cash and bank balances of Rs 14.9 crore as on September 2018, which further supports its liquidity profile.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology-Real estate entities</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	Not Applicable

## 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 involved in residential real estate development and is currently executing four projects with a total saleable area of 2.8 msft, located in Bengaluru and Hyderabad. Since 1997, the Sumadhura Group has developed around 42 residential projects with a total built-up area of 5.7 msft. It plans to launch eight projects with a total saleable area of 7.6 msft in next three fiscals.

## Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	272.7	312.3
PAT (Rs. crore)	25.8	30.4
OPBDIT/OI (%)	21.7%	20.6%
RoCE (%)	31.4%	29.1%
Total Debt/TNW (times)	1.6	1.3
Total Debt/OPBDIT (times)	1.9	2.0
Interest coverage (times)	3.6	5.3

## 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 Dec 2018	Date & Rating in FY2018		Date & Rating in FY2017		Date & Rating in FY2016
					Feb 2018		Aug 09, 2016	Aug 03, 2016	
1 Cash Credit	Long Term	-	-	-	-		[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
2 Term Loan	Long Term	305.0	133.1*	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
3 Unallocated Limits	Long Term	-	-	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-

\*As on Sep 30, 2018.

## 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](http://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	Jan-17	-	Mar-20	35.7	[ICRA]BBB (Positive)
NA	Term Loan 2	Jul-17	-	Jul-23	88.1	[ICRA]BBB (Positive)
NA	Term Loan 3	May-18	-	Jul-22	31.2	[ICRA]BBB (Positive)
NA	Term Loan 4	May-18	-	Jul-24	150.0	[ICRA]BBB (Positive)

Source: SIPL

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