

Honer Developers Private Limited

January 16, 2019

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	65.00	65.00	[ICRA]BB+ (Stable); upgraded from [ICRA]BB (Stable)
Unallocated	15.00	15.00	[ICRA]BB+ (Stable); upgraded from [ICRA]BB (Stable)
Total	80.00	80.00	

*Instrument details are provided in Annexure-1

Rationale

The rating revision positively factors in satisfactory progress of Honer Vivantis project given that 75% of the project cost is incurred as on October 31, 2018; healthy bookings of 649 units (85% of total available 760 units) till October 2018 with sales velocity of 25 units per month and strong collection efficiency at 94% as on October 31, 2018. The rating also factors in prepayment of debt availed from HDFC bank given that 15% of the collections are adjusted towards debt repayment; closing cash balance of Rs. 26.93 crore in as on October 31, 2018 and close proximity of the Honer Vivantis project to IT office spaces in Hyderabad. The rating is, however, constrained by the limited brand presence given that Honer Vivantis is the first project being executed by the company; significant competition from other established players who are developing residential projects in western Hyderabad region; and exposure to the risk of slowdown in demand, falling property prices and sluggishness in the sector. The rating is also constrained by the significant execution risk with the group plans to launch a second project, Honer Aquantis, adjacent to the existing project.

Going forward, the company's ability to timely complete the Vivantis project, maintain collection efficiency would be the key credit rating sensitivities.

Outlook: Stable

The stable outlook reflects ICRA belief that the company would be timely completing the Honer Vivantis project. The outlook may be revised to 'Positive' if the Vivantis project is completed earlier than estimated, or better than expected sales performance of the new project Honer Aquantis resulting in improved cash flows. The outlook may be revised to 'Negative' in case of slowdown in sales, lower than expected collection efficiency or delayed completion of ongoing and upcoming projects.

Key rating drivers

Credit strengths

Experienced promoters in the real estate industry spanning over 10 years: The promoters of the company have more than ten years of experience in the real estate industry having executed projects across Hyderabad, Vijayawada, Visakhapatnam cities. Overall the promoters have aggregately handled more than 3.5 million sq. ft. of real estate development across various group companies over the past 10 years.

Satisfactory construction progress of Honer Vivantis: The Honer Vivantis construction progress is satisfactory given that the company has incurred around 75% of the project cost (Rs. 193.20 crore) as on October 31, 2018; the same is funded by Rs. 10.00 crore of equity, Rs. 45.00 crore of debt and the rest through customer advances. Further, four towers (A, B, I

and J) are handed over to customers in December 2018 and the remaining 6 otwoers would be handed over by December 2019.

Healthy bookings and collection efficiency: Honer Vivantis is located at Gopannapally which is in the financial district of Hyderabad. The project is located within 6-7 kms from major IT office spaces such as Infosys, Microsoft, Wipro, etc resulting in healthy bookings. The bookings are healthy at 649 units (85% of total available 760 units) as of October 31, 2018; the company was able to achieve sales velocity of 25 units per month in the past 12 months. The collection efficiency is healthy at 94% as on October 31, 2018; HDPL collected Rs 205.10 crore from customers and the pending collections are sufficient to complete the project and repayment of debt.

Credit challenges

Execution risk associated with Honer Aquantis to be launched in FY2020: Given the large project size of 1240 units to be undertaken at an estimated cost of Rs 553 crore and nascent stage of execution, the company is exposed to project execution risk. The project is planned to be funded by proposed debt of Rs 200 crore, Rs 25 crore equity and rest from customer advances.

Limited brand presence of the group with Honer Vivantis being the first project of the group: HDPL was incorporated in March 2016 and Vivantis is the first project for the company. The promoters have experience in real estate industry through other group companies. Despite the limited brand presence, the company is able to sell the project due to the attractive location of the project in West Hyderabad region.

High degree of competition from other established real estate players in western Hyderabad region: The western Hyderabad region has high competition among all the regions in terms of the number of new launches and is the preferred choice of customers due to its proximity to IT office spaces. The area is marked by the presence of number of real estate developers which can affect the realisations as well as the sales velocity in the project.

Exposure to the risk of slowdown in demand, falling property prices and sluggishness in the sector: Like all other players in the real estate sector, HDPL is also exposed to the risk of slowdown in demand, falling property prices and sluggishness in the sector on account of various macro economic conditions, political instability, etc.

Liquidity Position:

The liquidity position is comfortable given the cash balance of Rs. 26.93 crore as on October 31, 2018. The company has outstanding debt of Rs 8.00 crore and would be able to prepay the loan given that 15% of the collections are adjusted towards debt repayment.

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	Standalone

About the company:

Honer Developers Private Limited (HDPL) was incorporated in March 2016 with the main objective of constructing residential housing projects. The name of the company changed from Invicon Developers Private Limited in December 2016. The company is currently executing a residential real estate project named 'Honer Vivantis' at Gopannapally in Hyderabad with a total saleable area of 1,164,700 sq. ft. The company is led by promoters of R.S. Brothers group and Big C Mobiles group. The directors of the company have aggregately handled more than 3.5 million sq. ft. of real estate development in Hyderabad, Visakhapatnam, Vijayawada, Rajahmundry, etc in the past ten years. The company is launching a new project named 'Honer Aquantis' besides the Honer Vivantis project with an estimated builtup area of 1.98 million sq ft in FY2020.

In FY2018, the company reported a net profit of Rs. 3.02 crore on an operating income of Rs. 107.95 crore.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	0.00	107.95
PAT (Rs. crore)	0.00	3.02
OPBDIT/OI (%)	-	9.44%
RoCE (%)	14.61%	21.99%
Total Debt/TNW (times)	650.78	17.68
Total Debt/OPBDIT (times)	12.94	5.33
Interest coverage (times)	1.05	1.76

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Amount Rated (Rs. crore)	Current Rating (FY2019)		Chronology of Rating History for the past 3 years		
			Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				January 2019	August 2017	May2016	-
1 Term Loan	Long Term	65.00	17.36	[ICRA]BB+ (Stable)	-	-	-
2 Cash Credit	Long term	0.00	-	-	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	-
3 Unallocated	Long Term	15.00	-	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[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	November 2017	13.00%	May 2022	65.00	[ICRA]BB+ (Stable)
NA	Unallocated	NA	NA	NA	15.00	[ICRA]BB+ (Stable)

Source: Honer Developers Private Limited

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