

May 17, 2019

SNN Properties LLP: Rating reaffirmed, Outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund Based- Cash Credit	199.00	199.00	[ICRA]BBB+ (Negative); Reaffirmed, Outlook revised from Stable to Negative
Total	199.00	199.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in the rating outlook takes into account the large upcoming debt repayments of the Group in FY2021, against the backdrop of weak sales performance in one of the high-end residential projects of the Group (Clermont). As the Clermont project is in advanced stages and is expected to be completed by FY2020, the improvement in sales velocity is crucial to meet the repayment obligations falling due in FY2021. The continuous push to complete the ongoing projects, coupled with inadequate customer collections from the Clermont project, has increased the Group's dependence on external debt to Rs. 522 crore as on March 31, 2018 and Rs 624 crore as on January 31, 2019 from Rs. 372 crore as on March 31, 2017. The receivables from the sold area cover around 24% of the pending costs and debt outstanding, indicating high dependence on incremental sales. Timely liquidation of the inventory in the Group's projects, especially Clermont, would be critical to meet the debt repayments on the associated loans.

The rating continues to take into account the strong track record of the promoters and the established position of SNN Group in the Bangalore residential real estate market. ICRA also positively factors in the steady construction progress in the ongoing projects of the Group, wherein 90% of the development costs has been incurred. The Group's track record of timely execution, good location, moderate pricing and wide range of amenities has resulted in healthy sales in the mid-segment projects viz. Etternia, Greenbay and Serenity. The rating also factors in the Group's financial flexibility, resulting from the presence of ready-to-move-in inventory in some of the completed projects and the unencumbered land bank.

Outlook: Negative

The Negative outlook reflects ICRA's expectation that continued low sales velocity in Clermont project will hamper the free cash flows of the Group, increasing its reliance on external funding. The outlook may be revised to Stable or Positive in case there is significant improvement in sales velocity in the Clermont project.

Key rating drivers

Credit strengths

Established track record of SNN Group and strong execution capabilities: The Group has been operating in the Bangalore real estate market for more than 20 years and have developed 40 projects, covering 9.3 million sq. ft. It has traditionally been able to achieve healthy sales tie-up at the launch of their projects because of the demonstrated execution capability, good project locations, and provision of a wide range of amenities at reasonable pricing. The Group has received favourable customer response in the form of healthy bookings and customer advances in the mid-segment projects such as Greenbay, Etternia and Serenity.

Robust execution progress: The execution progress in the ongoing projects has been healthy. The Group has already delivered 3.6 mn sq ft of area till March 31, 2019 and has 2.7 mn sq ft of area under development, with only finishing costs to be incurred. The Group has pending costs to be incurred in only two of the five ongoing projects, which are expected to be completed by Q3FY2020.

Healthy financial flexibility: The Group has financial flexibility, resulting from the presence of unsold inventory worth ~Rs. 1600 crore, out of which Rs. 600 crore is the value of the ready-to-move-in inventory in the completed projects. Additionally, the company has unencumbered land.

Credit challenges

Low sales velocity in premium projects: SNN Spiritua and Clermont have witnessed tepid sales since the last two years as both are premium projects. However, other projects of the Group have witnessed good sales traction. The sales and collections are expected to improve with receipt of Occupancy Certificate in two out of five blocks in the Clermont project and expected completion of the remaining blocks by FY2020.

Increasing dependence on debt: Inadequate sales in the Clermont project has compelled the Group to borrow additional debt to meet the pending construction costs, resulting in moderately high leverage. The gearing level was 1.9 times as on March 31, 2018, at the Group level, an increase from 1.7 times as on March 31, 2017. The Group's dependence on external debt increased to Rs. 522 crore as on March 31, 2018 and Rs. 624 crore as on January 31, 2019 from Rs. 373 crore as on March 31, 2017.

Timely liquidation of balance inventory crucial as large repayments are due in FY2021: As on January 2019, the Group had Rs. 228 crore of balance receivables from all entities, which provides a modest cover of 24% over the remaining construction costs and debt outstanding on the ongoing projects. While the unsold inventory provides a strong cover over the debt outstanding, timely liquidation of the same is critical to avoid cash flow mismatches. The Group has debt repayments of Rs 91 crore and Rs 370 crore in FY2020 and FY2021, respectively.

Liquidity position:

As on January 2019, the Group had a total sanctioned debt of Rs. 846 crore, with debt outstanding of Rs. 624 crore. All the loans are primarily term loans with majority of the repayments falling due in FY2021. The Group had undrawn limits of Rs. 204 crore as on January 31, 2019, which it plans to spend on construction in the ongoing projects, apart from meeting any cash flow mismatches stemming from inadequate sales and collections in the Clermont project. The Group's ability to improve its sales velocity in the ongoing projects, particularly the premium Clermont project, will be critical for meeting repayments in FY2021.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group Support	None
Consolidation / Standalone	For arriving at the rating, ICRA has taken a consolidated view of SNN Builders Private Limited along with its group entities—SNN Spiritua Developers, SNN Properties LLP, Ibrox Real Estate Development Private Limited and SNN Homes LLP since all the entities operate in the same line of business, have strong operational and financial linkages, and share a common management.

About the company:

SNN Properties LLP is a limited liability partnership firm which is currently engaged in development and construction of a residential project named 'Etterna' on Harlur Road in Bangalore over an area of 40 acres. Phase I of the project was launched in 2014 and involves construction of 576 residential apartments over close to 10 acres of land with a total saleable area of about 0.94 million sq. ft. Phase II of the project was launched in 2016 and involves construction of 245 residential apartments over 5.5 acres of land with a total saleable area of about 0.41 million sq. ft. The project is in advanced stages of completion with 91% of the development costs incurred as on March 2019. As on March 2019, the firm had already achieved sales tie-up for 82% of the area.

At present, the SNN Group has a portfolio of seven projects (including five projects which have recently been completed) with three projects under SBPL and one project each under SNN Properties LLP, SNN Homes LLP, SNN Spiritua Developers and Ibrox Real Estate Development Private Limited.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	128.5	116.8
PAT (Rs. crore)	6.2	15.8
OPBDIT/OI (%)	9.6%	23.0%
RoCE (%)	33.0%	28.1%
Total Debt/TNW (times)	0.6	3.2
Total Debt/OPBDIT (times)	1.8	3.8
Interest coverage (times)	1.8	5.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May 2019	Date & Rating in FY2019 Apr 2018	Date & Rating in FY2018	Date & Rating in FY2017	
							Mar 2017	Dec 2016
1 Cash Credit	Long Term	199.0	145.09	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable) Suspended

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	Cash Credit	Apr 2016	-	Jan 2021	199.0	[ICRA]BBB+ (Negative)

Source: SNN Properties LLP

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
SNN Homes LLP	Group Company	Full Consolidation
SNN Builders Private Limited	Group Company	Full Consolidation
Ibrox Real Estate Development Private Limited	Group Company	Full Consolidation
SNN Spiritua Developers	Group Company	Full Consolidation

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