

September 13, 2019

Ajnara India Limited: Rating downgraded to [ICRA]BBB-(Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	848.0	848.0	[ICRA]BBB- (Stable); revised from [ICRA]BBB(Stable)
Long-term Unallocated	82.0	82.0	[ICRA]BBB- (Stable); revised from [ICRA]BBB(Stable)
Total	930.0	930.0	

*Instrument details are provided in Annexure-1

Rationale

The rating revision for Ajnara India Limited (AIL) takes into account the slower-than-expected pace of collections over the past 12 months due to delays in receipt of occupation certificate (OCs) for certain projects resulting in deferral of possession-linked collections. AIL had, in the past, made a large number of sales on a possession-linked basis. However, with OCs for certain projects remaining pending, and corresponding delays in providing possession to customers, the incremental customer advances expected during the period were adversely impacted. This is evident in the low collection to sales ratio recorded for the projects Integrity (Ghaziabad, U.P.), Panorama (Greater Noida, U.P.) and Ambrosia (Noida, U.P.) despite the near completion stage of the same. Inconsequently, the reliance on external debt to support execution has increased, with debt levels rising to Rs. 735 crore as on July 31, 2019. The elevated debt levels have adversely impacted the capital structure and debt coverage indicators of the company. Moreover, ICRA also notes that the company has to make significant land payments of Rs. 477 crore (although a part of this amounting to ~Rs. 258 crore is under dispute as of now, which might change the final liability going forward) over the next few years. Hence, given the expected outflows towards project execution, debt obligations and land dues, it will remain critical for the company to obtain OCs for its near-complete projects, achieve adequate sales in its other ongoing projects, and accordingly ramp up collections in a timely manner for keeping operational cash flows adequate over the near to medium term.

The rating, nonetheless, continues to draw comfort from the company's established track record in developing residential projects in the Ghaziabad and Noida regions of UP, which has enabled it to maintain a healthy sales velocity. The continuing focus of the company on execution, which has driven most of its ongoing projects to an advanced stage of construction, has further supported the sales velocity, given the increasing home-buyer preference for completed inventory. However, the intermediate stage of construction in AIL's relatively newer project – Ajnara Sports City, (Greater Noida, UP) – which is also the largest project being undertaken by the company at present, exposes it to some execution risks. ICRA notes that a land dispute pertaining to the project has resulted in cancellation of some bookings and adversely impacted fresh sales. AIL has also recently launched Ajnara Fragrance, a project being undertaken under the PMAY-U. Milestone-linked payments from the Government on this project are expected to support overall cash flows to some extent going forward.

ICRA also notes that AIL has extended support to other companies (subsidiaries, JVs and other Group companies) in the form of inter corporate deposits (ICD)/advances/investments or corporate guarantees for their loans. Thus, AIL, as the

parent, is exposed to implementation risks for its subsidiaries' projects and may be required to extend financial support to these entities in case of any contingency. Nonetheless, the company has benefitted from upstreaming of cash flows from the underlying projects in the recent past.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters - The long and established track record of the promoters in the real estate business in the Noida and Ghaziabad regions has supported AIL's market position. The company has successfully completed various Group housing projects in the past.

Continuing focus on execution pace; most ongoing projects at advanced stage of construction - Most of the large projects being undertaken by AIL at present are nearly complete, which has supported sales velocity, given the increasing home-buyer preference for complete inventory. However, the intermediate stage of construction in AIL's relatively newer project – Ajnara Sports City, (Greater Noida, UP) – which is also the largest project being undertaken by the company at present, exposes it to some execution risks. ICRA notes that a land dispute pertaining to the project has resulted in cancellation of some bookings and adversely impacted fresh sales. AIL has also recently launched Ajnara Fragrance, a project being undertaken under the PMAY-U. Milestone-linked payments from the Government on this project are expected to support overall cash flows to some extent going forward.

Credit challenges

Slow pace of collections due to delays in receipt of occupation certificate (OCs) for certain projects resulting in deferral of possession-linked collections - AIL had, in the past, made a large number of sales on a possession-linked basis. However, with OCs for certain projects, namely Integrity, Panorama and Ambrosia remaining pending, and corresponding delays in providing possession to customers, the incremental customer advances expected during the period were adversely impacted. This is evident in the low collection to sales ratio recorded for the aforementioned projects. Consequently, the company relied mainly on external debt to fund project costs, which resulted in an increase in debt to Rs. 735 crore as on July 31, 2019. The elevated debt levels have adversely impacted the gearing and debt coverage indicators of the company.

Significant land payments due - AIL has substantial liability towards land payments over the next few years, amounting to Rs. 477 crore. ICRA notes that there have been certain delays in the payment of land dues because of slow collections. Hence, the company plans to set-up collections linked sweep-in clauses for land payments to ensure timely payments. Accordingly, its ability to ensure adequate collections would remain critical to offset any major pressure on cash flows going forward.

Support to Group companies/other corporates - AIL has extended support to other companies (subsidiaries, JVs and other Group companies) in the form of ICDs/advances/investments or corporate guarantees for their loans. Thus, AIL, as the parent, is exposed to implementation risks for its subsidiaries' projects and may be required to extend financial support to these entities in case of any contingency. Nonetheless, it has benefitted from upstreaming of cash flows from the underlying projects in the recent past.

Exposure to risks arising from geographical concentration of operations and slowdown in the real estate sector- Like other real estate players, the company is exposed to risks of slowdown in demand, fall in property prices, liquidity crunch etc. The slowdown in the real estate market impacted fresh bookings in the last two years. This risk is exacerbated by the company's geographical concentration with operations primarily in Ghaziabad and Noida.

Liquidity position: Adequate

Despite the slowdown in collections, limited debt repayment obligations in FY2020 and low committed costs towards ongoing projects are expected to keep the company's liquidity position **adequate** over the near term. Availability of high undrawn bank limits aggregating to around Rs. 174 crore as in July, 2019, would enable the company to fund any temporary cash flow mismatches on account of these outflows. Further, the rating draws comfort from the presence of a sweep-in clause, which is expected to lead to some prepayment of debt based on pace of collections from the respective project. Going forward however, it will remain critical for the company to obtain OCs for its near-complete projects, achieve adequate sales in its other ongoing projects and accordingly ramp up collections in a timely manner for keeping operational cash flows adequate.

Rating sensitivities

Positive triggers – ICRA could upgrade AIL's rating in case timely receipt of OC in near completed projects leads to a significant increase in collections and reduction in overall debt levels on a sustained basis.

Negative triggers – Negative pressure on AIL's rating could arise in case of further delays in receipt of OC or continued slowdown in collections, leading to further increase in debt levels.

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 Financial Statements

About the company

Incorporated in 1991 as a private limited company, Ajnara India Limited (AIL) was earlier known as Ajnara Farms and Services Limited. AIL is a closely-held company managed by three brothers namely Mr. Pramod Kumar Gupta, Mr. Ashok Gupta and Mr. Vinod Gupta. The company has completed several Group housing projects in the National Capital Region (NCR) and is currently developing five Group housing projects: Ajnara Integrity in Ghaziabad, Ajnara Heritage in Noida, Ajnara Ambrosia in Noida, Ajnara Panorama and Ajnara Sports City in Greater Noida. AIL has also recently launched Ajnara Fragrance, a project being undertaken under the PMAY-U.

In FY2018, the company reported a net profit of Rs. 1.9 crore on an operating income (OI) of Rs. 290.2 crore compared with a net profit of Rs. 1.9 crore on an OI of Rs. 264.0 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	264.0	290.2
PAT (Rs. crore)	1.9	1.9
OPBDIT/OI (%)	8.05%	8.04%
RoCE (%)	3.73%	3.58%
Total Outside Liabilities/Tangible Net Worth (times)	7.10	7.70
Total Debt/OPBDIT (times)	19.40	26.32
Interest Coverage (times)	1.17	1.07
DSCR	0.16	0.12

Note: FY2019 audited financials not available as yet

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019		FY2018	FY2017
					13-Sep-19	25-Mar-19	30-Aug-18	30-Mar-18	30-Dec-16
1	Fund Based Term Loan	Long Term	848	735	[ICRA]BBB-(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Unallocated Limits	Long Term	82	-	[ICRA]BBB-(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Amount in Rs. Crore

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-Apr-16	14.10%	1-Apr-19	2	[ICRA]BBB(Stable)
NA	Term Loan	1-Jun-20	13.20%	1-Jun-24	38	[ICRA]BBB(Stable)
NA	Term Loan	1-Mar-20	13.50%	1-Feb-22	35	[ICRA]BBB(Stable)
NA	Term Loan	1-Mar-20	12.25%	1-Mar-22	57	[ICRA]BBB(Stable)
NA	Term Loan	1-Mar-20	12.75%	1-Mar-22	25	[ICRA]BBB(Stable)
NA	Term Loan	3-Jan-19	11.40%	31-Jan-24	20	[ICRA]BBB(Stable)
NA	Term Loan	17-Oct-18	13.50%	1-Apr-23	145	[ICRA]BBB(Stable)
NA	Term Loan	26-May-17	13.75%	1-Dec-23	235	[ICRA]BBB(Stable)
NA	Term Loan	26-May-17	13.75%	1-Dec-23	115	[ICRA]BBB(Stable)
NA	Term Loan	15-Nov-17	14.75%	1-Dec-24	176	[ICRA]BBB(Stable)
NA	Unallocated				82	[ICRA]BBB(Stable)
					930	

Source: AIL

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

Analyst Contacts

Shubham Jain
+124-4545 306
shubhamj@icraindia.com

Rashmi Agarwal
+124-4545 871
rashmi.agarwal@icraindia.com

Mahi Agarwal
+33-7150 1106
mahi.agarwal@icraindia.com

Relationship Contact

Jayanta 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:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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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) 2556 0194/ 6606 9999

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