

February 10, 2022

## Sunteck Realty Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Term Loans	606.00	575.00	[ICRA]AA- (Stable); reaffirmed
Long Term – Cash Credit	215.00	175.00	[ICRA]AA- (Stable); reaffirmed
Long Term – Unallocated	179.00	250.00	[ICRA]AA- (Stable); reaffirmed
<b>Total</b>	<b>1000.00</b>	<b>1000.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of the rating continues to factor in Sunteck Realty Limited's (SRL) comfortable cash flow adequacy ratio and financial flexibility from unsold completed inventory. As on September 30, 2021, SRL's pending collections (net of JDA partners' share) were at over Rs. 1,700 crore, of which nearly one-third pertains to projects either completed or in advanced stages of completion (over 75% financial progress achieved). The receivables stood at 107% of the pending cost and debt obligations as on September 30, 2021 compared with 78% as on June 30, 2020. Additionally, the unsold inventory of 0.5 million square feet (mn sq ft) and 2.1 mn sq ft across its completed and ongoing projects, respectively, provides financial flexibility.

SRL launched the Naigaon and Vasind projects through joint development agreements (JDAs<sup>1</sup>) on a revenue-sharing basis. Consequently, the borrowing levels are expected to remain low as the projects are largely funded through customer advances and no major investments are required towards land acquisition. SRL has maintained a low debt level of Rs. 674 crore as on September 30, 2021 (Rs. 922 crore as on March 31, 2020). The rating takes into account SRL's healthy financial risk profile as reflected in its low debt levels and adequate debt coverage indicators. ICRA notes that in Q3 FY2022, the company incurred over Rs. 130 crore, largely debt funded, towards upfront premium payments to benefit from the concession of the Maharashtra state government and has, in turn, resulted in meeting of majority of the approval cost for the ongoing projects. Nonetheless, with the exception of FY2022 due to these upfront payments, the company's financial risk profile is expected to remain comfortable going forward with the SRL's share of Collection/ total debt over 1.5 times over the medium term.

The rating, however, continues to be constrained by the company's aggressive expansion and geographically concentrated portfolio. Over the last 24 months, SRL has ventured into five JDAs with a total development potential of 24 mn sq ft. The same, together with the unlaunched area of other ongoing projects, has taken up the overall future development potential of SRL to over 45 mn sq ft, which is primarily concentrated in the Mumbai Metropolitan Region (MMR). Considering the large size of the upcoming projects, the company is exposed to the geographical concentration risk as it is present only in MMR and any adverse impact on the real estate market of the region may impact its credit profile. The rating is also constrained by SRL's exposure to the cyclicity in the real estate industry.

The Stable outlook on the rating reflects ICRA's opinion that SRL will continue to ramp up sales and collection performance while maintaining a healthy financial risk profile.

<sup>1</sup> All the approval-related costs are to be borne by the landowners and SRL is responsible for project execution, sales and marketing

## Key rating drivers and their description

### Credit strengths

**Adequate committed cash flow visibility; sizeable ready unsold inventory enhances financial flexibility** – As on September 30, 2021, the gross pending collections stood at over Rs. 2,100 crore from completed and ongoing projects. SRL's share (net of JDA and joint venture partners' share) of pending collections was over Rs. 1,700 crore, of which 18% each pertained to the completed projects and the ongoing projects (wherein financial progress of over 75% has been achieved). Thus, the near-term visibility of cash flows is expected to remain adequate. The receivables as on September 30, 2021 stood at 107% of the company's pending cost and debt obligations against 78% as on June 30, 2020.

The unsold inventory of 0.5 mn sq ft and 2.1 mn sq ft across its completed and ongoing projects, respectively, together with undrawn bank lines of over Rs. 400 crore provides financial flexibility. ICRA notes that SRL has unsold completed inventory with a market value of over Rs. 1,000 crore as on September 30, 2021.

**Adoption of asset-light JDA model for new projects** – Since July 2020, the company has entered into JDA arrangements across five micro-markets (Vasai, Vasind, Kalyan, Borivali West and Pen-Khopoli) in MMR. Under these agreements it has got access to development potential of nearly 24 mn sq ft. Consequently, the borrowing levels are expected to remain low as the projects are largely funded through customer advances and no major investments are required for land acquisition. SRL has a revenue-share arrangement in these projects and the payment to the JDA partners are linked to collection inflows, resulting in better cash flow management.

**Healthy financial risk profile** – The overall financial risk profile is supported by healthy profitability owing to the low upfront land-cost component due to strategic acquisitions (in the case of Oshiwara District Centre) and lower dependence on debt due to the JDA arrangements (in the cases of Naigaon, Vasai and Vasind). The company's financial risk profile is expected to remain comfortable going forward with SRL's share of Collection/ total debt over 1.5 times over the medium term.

**Healthy track record in real estate development in MMR** – SRL, founded in 2006, has completed around 3 mn sq ft of real estate development (mainly residential) and is at present developing ~6.8 mn sq ft across six micro-markets in MMR. It has a healthy track record of over 15 years in real estate development in MMR. The company's completed and ongoing projects' inventory is housed under five brands targeting the residential and commercial real estate buyers across varied price points.

### Credit challenges

**Aggressive expansion plans compared to the current moderate scale of operations** – Since 2019, the company has ventured into six JDAs with a total development potential of 36 mn sq ft, wherein the company is responsible for project execution, sales and marketing, while the JDA partners/land owners are responsible for all the approvals. This has taken up the overall future development potential to be executed over the next seven to eight years to 45 mn sq ft compared to the present portfolio of 10 mn sq ft (completed and ongoing projects). The company is likely to continue to grow its development potential over the near term through new project acquisitions. However, ICRA expects any new acquisitions to happen through the JDA route and to be funded in a prudent manner, i.e. without a significant increase in the leverage levels. Considering the large size of the upcoming projects, ICRA would continue to monitor the sales and collection performance of these projects.

**Geographically concentrated portfolio** – SRL's completed, ongoing as well as future projects are majorly located in MMR. In the completed and ongoing portfolio, there is further concentration in three micro-markets, i.e., Bandra-Kurla Complex (BKC), Oshiwara District Center (ODC) and Naigaon. However, its presence across product segments and price points mitigates the risk to some extent.

**Exposure to cyclicality in real estate business** – Prior to the Covid-19 pandemic, the residential real estate sector had been adversely impacted by liquidity crunch, high inventory and subdued demand conditions. The pandemic-induced lockdowns resulted in a moderation in the industry's sales and collections in H1 FY2021 and Q1 FY2022; however, the operating metrics

of established developers showed strong recovery post the lockdowns. The company's high level of unsold inventory in certain luxury segments exposes it to the risk of cyclicity in demand trends.

### Liquidity position: Adequate

As on September 30, 2021, SRL reported unencumbered cash and bank balances of Rs. 38.9 crore and undrawn bank lines of over Rs. 400 crore. ICRA notes that in Q3 FY2022, the company incurred over Rs. 130 crore towards upfront premium payments to benefit from the concession of the Maharashtra state government. The available liquidity and pending receivables (SRL's share) of over Rs. 1,700 crore as on September 30, 2021 would be adequate to meet the cash flow requirements for operations and debt servicing.

### Rating sensitivities

**Positive factors** – ICRA could upgrade SRL's rating if the company is able to significantly improve its scale and business diversification while maintaining a low leverage profile. A specific credit metric that could lead to an upgrade includes yearly Collection (SRL's share)/Total Debt above 3.0 times on a sustained basis.

**Negative factors** – The rating may be downgraded in case of any significant increase in leverage levels coupled with slower-than-expected sales and collections on a sustained basis. A specific credit metric that could lead to a downgrade includes yearly Collection (SRL's share)/Total Debt below 1.5 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Real Estate Entities</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of SRL and its 18 wholly-owned subsidiaries (refer Annexure-2).

### About the company

SRL, founded in 2006, is a real estate developer focused on the Mumbai Metropolitan Region (MMR). It has undertaken major development in BKC, while other projects are under development in Oshiwara District Centre, Goregaon and Naigaon. It has completed a project portfolio comprising 3 mn sq ft area and has an ongoing development portfolio of 6.8 mn sq ft., with planned and forthcoming development of over 45 mn sq ft. Apart from MMR, the company has a small presence in other cities like Nagpur, Goa and Jaipur through completed or forthcoming projects. SRL is present across real estate segments, i.e. from affordable housing to luxury developments.

## Key financial indicators

SRL Consolidated	FY2020 (Audited)	FY2021 (Audited)	H1 FY2022 (Unaudited)
Operating Income (Rs. crore)	556.5	608.8	238.5
PAT (Rs. crore)	75.6	47.6	21.3
OPBDIT/OI (%)	29.6%	21.7%	27.9%
PAT/OI (%)	13.6%	7.8%	8.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5	0.9
Total Debt/OPBDIT (times)	5.6	5.2	5.1
Interest Coverage (times)	2.0	1.6	1.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note: Amount in Rs. crore; All calculations are as per ICRA Research Source: Company, ICRA Research

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2021 (Rs. crore)	Date & Rating on	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
				Feb 10, 2022	Oct 29, 2021	Oct 29, 2020	Nov 29, 2019	Sep 17, 2018
1 Fund Based Term loan	Long-term	575.00	117.0	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)		
2 Cash Credit	Long-term	175.00	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)		
3 Unallocated	Long-term	250.00	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)		
4 Proposed NCD	Long-term	-	-	-	[ICRA]AA-(Stable) withdrawn	[ICRA]AA-(Stable)		
5 Proposed Commercial Paper	Short-term	-	-	-	[ICRA]A1+; Withdrawn	[ICRA]A1+	[ICRA]A1+; withdrawn	[ICRA]A1+

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based TL	Simple
Long Term- CC	Simple
Long Term- Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan-1	FY2021		FY2026	300.0	[ICRA]AA- (Stable)
-	Term Loan-2	FY2021		FY2025	85.0	[ICRA]AA- (Stable)
-	Term Loan-3	FY2022		FY2025	30.0	[ICRA]AA- (Stable)
-	Term Loan-4	FY2022		FY2025	10.0	[ICRA]AA- (Stable)
-	Proposed Term Loans	-		-	150.0	[ICRA]AA- (Stable)
-	Long Term- CC	-		-	175.0	[ICRA]AA- (Stable)
-	Long Term- Unallocated	-		-	250.0	[ICRA]AA- (Stable)

Source: Company

### Annexure-2: List of entities considered for consolidated analysis

Company Name	SRL Ownership	Consolidation Approach
Satguru Infocorp Services Private Limited	100.00%	Full Consolidation
Starlight Systems Private Limited	100.00%	Full Consolidation
Sunteck Property Holdings Private Limited	100.00%	Full Consolidation
Satguru Corporate Services Private Limited	100.00%	Full Consolidation
Sahrish Constructions Private Limited	100.00%	Full Consolidation
Sunteck Realty Holdings Private Limited	100.00%	Full Consolidation
Sunteck Lifestyle International Private Limited	100.00%	Full Consolidation
Sunteck Lifestyle Limited	100.00%	Full Consolidation
Sunteck Lifestyle Management DMCC	100.00%	Full Consolidation
Advait Infraprojects Private Limited	100.00%	Full Consolidation
Starlight Lifestyle Private Limited	100.00%	Full Consolidation
Sunteck Infraprojects Private Limited	100.00%	Full Consolidation
Sunteck Real Estates Private Limited	100.00%	Full Consolidation
Skystar Buildcon Private Limited	100.00%	Full Consolidation
Starlight Systems (I) LLP	100.00%	Full Consolidation
Clarissa Facility Management LLP	100.00%	Full Consolidation
Mithra Buildcon LLP	100.00%	Full Consolidation
Magnate Industries LLP	100.00%	Full Consolidation
Shivay brokers private limited	100.00%	Full Consolidation
Piramal Sunteck Realty Private Limited	50.00%	Equity Method
Nariman Infrastructure LLP	50.00%	Equity Method
Uniworth Realty LLP	50.00%	Equity Method
GGICO Sunteck Limited	50.00%	Equity Method
Kanaka & Associates	50.00%	Equity Method
Yukti Infraprojects LLP (w.e.f. 23rd January, 2020, upto 23rd February, 2021)	50.00%	Equity Method

Source: SRL annual report FY2021

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### Branches



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