Nitesh Estates Limited

Instrument	Amount (Rs. Crore)	Rating Action December 2015
Fund based limits	32.50 (reduced from 222.00)	[ICRA]BB- (Stable); downgraded from [ICRA]BB+
Proposed limits	0.00 (revised from 78.00)	Withdrawn
Total	**32.50 (reduced from 300.00)**	

ICRA has downgraded the rating assigned to the Rs. 32.50 crore (reduced from 222.00) fund based limits of Nitesh Estates Limited (NEL) to [ICRA]BB- (pronounced ICRA double B minus) from [ICRA]BB+ (pronounced ICRA double B plus). ICRA has withdrawn the [ICRA]BB+ (Stable) rating assigned to nil (revised from Rs. 78.00 crore) proposed limits of Nitesh Estates Limited (NEL). The outlook on the long term rating is stable.

While assigning the rating, ICRA has taken a consolidated view of NEL and its subsidiaries given the strong operational, financial and management linkages among various entities.

The revision in rating takes into account the significant deterioration in operational and financial performance of NEL during the first half of FY16. NEL's pre-sales and collections witnessed significant year on year decline of 49% and 24% respectively during H1FY16. With only around 37% of the saleable area of 8.12 million square feet (msf) from ongoing projects sold as on date, the company is exposed to significant market risks for its under construction projects. On the execution front, there have been delays in completion of projects which were earlier scheduled for completion in FY15 and there has been limited progress in recently launched projects. On an aggregate basis, only around 21% of the total estimated cost of ongoing projects has been incurred till date. Consequently, the company faces significant funding risks owing to the large development costs still to be incurred, limited availability of undrawn credit lines and decline in collections from customers. During H1FY16, NEL's consolidated revenues declined by 29% on a year on year basis, which led to a substantial drop in the profit margins of the company and it registered a cash loss of Rs 18 crore during the six month period[*]. The extent of losses have further widened on account of the share of loss from the associate company, Nitesh Residency Hotels Private Limited (NRHPL), which is operating the Ritz Carlton hotel in Bangalore. The funding support required by this entity is expected to be a further drag on NEL's cash flows. NEL has also extended a corporate guarantee to borrowings raised by an SPV in the group which has recently acquired a retail mall in Pune. Moreover, the rating continues to be constrained by NEL's high geographic revenue concentration to the Bangalore market, and susceptibility to cyclicality inherent in the real estate sector.

The rating, however, favourably takes into account NEL's established track record in the Bangalore real estate market and the experience of its promoters and key management personnel in the real estate business. The rating also takes into account the company's efforts to diversify its revenue generation through acquisition of the mall in Pune and strategic partnership with Goldman Sachs to invest in income generating assets.

Going forward, the company's ability to complete the ongoing projects in a timely manner and improve the velocity of sales and collections in its projects will be the key rating sensitivities.

Company Profile:
Nitesh Estates Limited (NEL) is a Bangalore based real estate developer. It was incorporated in 2004 by Mr. Nitesh Shetty, who is the managing director of the company. NEL's shares were listed on the BSE and NSE through an IPO in May 2010. It is primarily present in the residential real estate segment, though it has interests in commercial, retail and hospitality segments also through its various

[*] Before share of loss from associate company

associates and subsidiaries. NEL and its group companies till date have developed 13 residential and commercial projects totaling 2.6 msf of built up area apart from a 277 room 5-star deluxe hotel off Residency Road, Bangalore owned by its associate NRHPL. NEL is currently developing 19 residential projects (mix of apartment and villa projects), one plotted development and one mall.

Recent Results:
NEL has recorded a net loss of Rs. 34.65 crore on an operating income (OI) of Rs. 97.9 crore in H1FY16 as compared to a loss of Rs. 1.72 crore on an OI of Rs. 138.59 crore in H1FY15 and a profit of Rs. 2.36 crore on an operating income of Rs. 287.60 crore in FY15.

December 2015

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