

Sunteck Realty Limited

September 17, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	150.00	[ICRA]A1+; Assigned
Total	150.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 150-crore¹ commercial paper programme of Sunteck Realty Limited (SRL or the company)².

Rationale

The assigned rating draws strength from SRL's successful track record of more than 15 years in real estate sector marked by deliveries of more than 2 million sqft and presence across various price segments within residential segment which helps the company address a wider customer market. At the end of March 31, 2018, the company's underdevelopment portfolio included seven Mumbai-based projects having ~2 million sqft. The rating also factors in the healthy pending customer collections worth Rs. 877 crore from both completed and ongoing projects combined as on March 31, 2018, thereby providing cashflow visibility in near-to-medium term. In addition, the company had unsold inventory of 0.63 million sqft in its completed projects as on March 31, 2018. Going forward, any incremental sale in finished inventory, having sale value of more than Rs. 2,000 crore, will underpin the cashflows of the company. Moreover, the rating favourably factors in SRL's healthy financial risk profile marked by robust profitability, low gearing and strong debt coverage indicators. SRL reported an operating margin of 37% in FY2017 and 42% in FY2018, with RoCE remaining healthy at ~12% in FY2017 as well as in FY2018. The rating also considers improved capital structure owing to the recent QIP of Rs. 650 crore (including equity infusion of Rs. 150 crore from promoters) which has increased the net worth and also reduced debt levels from Rs. 944 crore as on March 31, 2017 to Rs. 568 crore as on March 31, 2018. Consequently, the gearing has improved from 0.5 times as on March 31, 2017 to 0.2 times as on March 31, 2018. Further, ICRA's rating also draws comfort from the healthy financial flexibility enjoyed by SRL as reflected by undrawn lines of Rs. 580 crore at the end of March 31, 2018. The rating also factors in the company's preference for asset light model with upcoming projects being planned under joint venture (JV)/ joint development agreement (JDA). ICRA takes cognizance of the management's stated intent to keep the leverage at low levels by limiting investments in land bank as well as linking outflows to landowners to project sales.

The rating strengths are offset by SRL's aggressive plans going forward which exposes the company to project approval, execution and market risk. The risks are further accentuated by geographical concentration as the entire underdevelopment portfolio and major upcoming development are concentrated in Mumbai Metropolitan Region (MMR). The company is looking at developing more than 15 million sqft across projects in Oshiwara District Centre (ODC, Goregaon, Mumbai), Naigaon and Dubai. However, ICRA notes that these developments will be undertaken in a phase-wise manner and are expected to be largely funded through internal accruals. Further, the rating is also constrained by

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

SRL's heavy reliance on BKC projects, which, at present, contribute majorly to quarterly sales and collections. ICRA also notes that the sales velocity tends to be slower in ultra-luxury projects, a segment that is catered by BKC projects, than the projects catering to mid-luxury and lower specifications. Thus, any slow-down in sales can impact company's cash flows adversely. Nevertheless, the company's ability to tap opportunities in Mumbai market as demonstrated in the past and further its recent launch of affordable project - Sunteck Westworld in Naigaon is expected to moderate the reliance on BKC projects to some extent. The rating also remains constrained by exposure of SRL to cyclicity in real estate industry.

Outlook: Stable

ICRA believes Sunteck Realty Limited will continue to benefit from the successful track-record of promoters, professional management and sale of completed projects that will underpin the cash flows. The outlook may be revised to Positive if the sales velocity and collections from new projects are better-than-expected as well as sustained momentum demonstrated in the on-going projects, along with improvement in profitability and return indicators thereby strengthening the overall financial profile of the company. The outlook may be revised to 'Negative' if there is a slower-than-expected sales momentum in completed and ongoing projects leading to operational deficit, delay in project execution leading to cost and time overruns and weakening of financial risk profile due to debt-funded project acquisition/land investment.

Key rating drivers

Credit strengths

Proven track record of promoters in real estate industry – Incorporated in 2000, SRL has completed more than 2 million sqft of real estate development (majorly residential) and is currently developing ~2 million sqft across 7 projects in Mumbai. The company also has presence across various price segments within residential segment that helps address a wider customer market.

Healthy cash flow visibility from completed and ongoing project portfolio – The pending customer collections stood at Rs. 877 crore from completed projects and ongoing projects combined as on March 31, 2018, thereby providing cashflow visibility in near-to-medium term. In addition, the company has unsold inventory of 0.63 million sqft in completed projects. Going forward, any incremental sale in finished inventory, having sale value of more than Rs. 2,000 crore, will underpin the cashflows of the company.

Healthy financial risk profile – The company's financial risk profile remains strong with healthy reported operating profitability of 37% in FY2017 and 42% in FY2018, healthy RoCE of ~12% in FY2017 as well as FY2018 and low gearing at 0.2 times as on March 31, 2018 (improved from 0.5 times as on March 31, 2017). The company's capital structure has improved in FY2018 because of QIP of Rs. 650 crore including promoter infusion of Rs. 150 crore. This has increased the net worth and also reduced debt levels from Rs. 944 crore as on March 31, 2017 to Rs. 568 crore as on March 31, 2018.

Asset light model with majority of upcoming projects planned under joint venture (JV)/joint development agreement (JDA) – The company has entered into JDA with the landowner to develop 100 acres land parcel in Naigaon in Mumbai's western suburbs with total development potential of 10-12 million sqft. The company has paid refundable deposit of Rs. 50 crore to enter into JDA. ICRA takes cognizance of the management's stated intent to keep investments in land low as well as outflows to landowners linked to sales and enter into a new JDA only if such projects offer healthy profitability, in line current PAT margins.

Credit challenges

Aggressive expansion plans going forward – The company is currently undertaking development of close to 2 million sqft across 7 projects in Mumbai. Going forward, the company is looking at developing more than 15 million sqft across projects in Oshiwara District Centre (ODC, Goregaon, Mumbai), Naigaon. Aggressive expansion in scale of operations exposes the company to project approval risk, project execution risk as well as market risk. However, ICRA notes that this development will take place in phase-wise manner and will largely be funded through internal accruals.

Reliance on BKC projects with it majorly contributing to current sales and collections – BKC completed residential projects majorly contribute to company's quarterly sales and collections. Further, ICRA also notes that the sales velocity tends to be slower in such ultra-luxury projects than that in projects catering to mid-luxury and lower specifications. Thus, any slow-down in sales can impact the cash flows adversely. However, 10-12 units are being sold every year with increased price points.

Exposure to geography concentration risk – With entire ongoing development and proposed development being undertaken in MMR, the company remains exposed to geography concentration risk. Going forward, the company's ability to diversify geographically by taking up profitable projects will be one of the key monitorables.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Real Estate Entities](#)

About the company:

Incorporated in 2000, Sunteck Realty Limited (SRL) is MMR (Mumbai Metropolitan Region) focused real estate developer with major development undertaken in BKC, development being undertaken in Oshiwara District Centre (ODC) at Goregaon and planned in Naigaon (between Borivali and Vasai). It has completed project portfolio comprising ~2.2 million Sqft area and ongoing development of ~2.0 million Sqft and planned and forthcoming development of ~28 million Sqft. Apart from MMR region, the company also has presence in other cities such as Nagpur, Goa and Jaipur through completed projects or forthcoming projects. The company has presence across pricing segments from affordable housing to uber luxury developments.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	952.20	888.29
PAT (Rs. crore)	221.24	229.67
OPBDIT/OI (%)	36.55%	41.88%
RoCE (%)	12.42%	12.47%
Total Debt/TNW (times)	0.51	0.21
Total Debt/OPBDIT (times)	2.71	1.53
Interest coverage (times)	7.65	8.85

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating September 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Commercial Paper Programme	Short Term	150.00	0.00	[ICRA]A1+	-	-	-

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
-	Commercial Paper Programme	-	-	7-365 days	150.00	[ICRA]A1+

Source: Sunteck Realty Limited

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