

August 13, 2019

Suvidha Realtors and Constructions Pvt Ltd: Rating of [ICRA]BB- (Stable) assigned

Summary of rating action

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Term Loan	15.50	[ICRA]BB-(Stable); assigned
Total	15.50	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating favourably factors in low execution risk for “Suvidha Maadha Towers” project with 88% of the project cost incurred and “Suvidha’s Matoshree Lifestyle Mall” project with 85% of the project cost incurred till July 31, 2019; and extensive experience of Suvidha group in the Hubli and Dharwad market having developed nearly 0.8 million sq. ft. of residential and commercial space in the past 25 years. However, the rating is constrained by high execution and moderate funding risk of “Suvidha Indraprastha” project with 51.33% of project cost incurred as on July 31, 2019. The pending construction cost of Rs 14.01 crore is proposed to be funded through Rs. 3.55 crore of committed receivables, Rs. 3.05 crore undrawn debt and the rest through future sales proceeds from the ongoing projects. The sales proceeds from unsold inventory of Suvida Maadha Towers and Suvidha’s Matoshree Lifestyle Mall projects can be used for funding Suvidha Indraprastha project construction reducing the funding risk to an extent. The rating is further constrained by slow sales velocity at 5 units per year in FY2019 across 3 projects; high geographical concentration risk with all projects developed in Hubli market and exposure of company’s profitability to slowdown in demand, falling property prices and sluggishness in the real estate sector.

Going forward, the company’s ability to improve its sales velocity, improve its collection efficiency and timely completion of projects would remain the key rating monitorable.

Outlook: Stable

The Stable outlook reflects ICRA belief that Suvidha Realtors and Constructions Pvt. Ltd. (SRCPL) will continue to benefit from the extensive experience of its promoters in the Hubli real estate market. The outlook may be revised to 'Positive' if the construction progress is ahead of schedule or higher than expected sales velocity. The outlook may be revised to 'Negative' if construction is slower than expected or lower than anticipated sales impacting the liquidity position.

Key rating drivers

Credit strengths

Experienced promoters in the real estate industry spanning over 30 years: SRCPL is managed by Mr. Dinesh Kumar Mahajan who has around 30 years of experience in real estate development in Hubli market. The company had developed nearly 0.8 million sq. ft. in residential and commercial segment in Hubli over the past 30 years.

Low execution risk for Suvidha Maadha Towers and Suvidha’s Matoshree Lifestyle Mall: SRCPL is developing a residential cum commercial project “Suvidha Maadha Towers” and commercial project “Suvidha’s Matoshree Lifestyle

Mall” with total saleable area of 55,716 Sq. ft and 25,357 sq. ft respectively. Both the projects are at advanced stage of construction with project proposed to be handed over to customers by August 2019.

Credit challenges

High market risk for Suvidha Indraprastha project: The company has 119625 sft of saleable area for Suvidha Indraprastha project; however, the bookings are low at 30.26% as on July 31, 2019. Further the sales velocity has remained low with 5 units being sold in FY2019. Given that 51.33% of project cost incurred, the market risk is high for Suvidha Indraprastha project. Although 44% of the area is yet to be sold for Suvidha’s Matoshree Lifestyle Mall as on July 31, 2019, the market risk is low given it is a commercial property and is at its advanced stage of construction. The company has achieved sales of 92% in Suvidha Maadha Towers project.

Moderate funding risk for Suvidha Indraprastha project: The company incurred 51.33% of the project cost for “Suvidha Indraprastha” project as on July 31, 2019. The pending construction cost of Rs 14.01 crore is proposed to be funded through Rs. 3.55 crore of committed receivables, Rs. 3.05 crore undrawn debt and the rest through future sales. The sales proceeds from Suvidha Maadha Towers and Suvidha’s Matoshree Lifestyle Mall projects can be used for funding Suvidha Indraprastha project as these projects are debt free and are at advanced stages of construction with minimum pending construction cost. The committed cash flows (balance collections from sold units) provide a moderate cover of 23% over the pending cost of the three projects and the company has to sell inventory worth Rs. 18.18 crore additionally to improve the coverage to 100% as on March 31, 2019. The repayments for construction loan starts from October 2020 and the quantum of sales in the near term would be a key rating monitorable.

Geographical concentration risks arising from presence only in Hubli and Dharwad: SRCPL activities are confined to Hubli and Dharwad cities, which exposes the company to geographical concentration risks. Any adverse development in the region can impact the execution and sales level of its projects.

Exposure to cyclical in the real-estate industry amid the prevailing weak macro-economic scenario: Being a cyclical industry, real estate is highly dependent on macro-economic factors, which make the company’s sales vulnerable to any downturn in the real-estate demand.

Liquidity position:

The liquidity position is moderate with pending project cost of Suvidha Indraprastha project proposed to be funded through undrawn debt of Rs. 3.05 crore from the project loans, Rs. 3.55 crore of committed receivables and the rest through future sale proceeds. Further, the company has 2007 sft and 5590 sft area of unsold inventory in advanced stage projects, namely Suvidha Maadha Towers and Suvidha Maatoshree Lifestyle Mall respectively. The company has 84150 sft of unsold inventory of in Suvidha Indraprastha project as on July 31, 2019.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Real Estate Entities Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	Standalone

About the company:

Suvidha Realtors and Constructions Pvt Ltd (SRCPL) was incorporated in August 1988 and is engaged in the development of residential and commercial real estate properties in Hubli. The company is promoted by Mr. Dinesh Kumar Rameshlal Mahajan who has around 30 years of experience in real estate development. SRCPL is a part of Suvidha group having interests in real estate projects located in and around Hubli, Karnataka. Currently the company is constructing three projects "Suvidha Indraprastha", "Suvidha Maadha Towers" and "Suvidha's Matoshree Lifestyle Mall" in Hubli at a total cost of Rs. 40.95 crore.

Key financial indicators

	FY2018	FY2019*
Operating Income (Rs. crore)	0.47	0.50
PAT (Rs. crore)	0.05	0.15
RoCE (%)	9.82%	10.44%
Total Debt/TNW (times)	2.88	6.48
Total Debt/OPBDIT (times)	8.13	13.09
Interest coverage (times)	1.12	0.97

*provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Amount Rated (Rs. crore)	Current Rating (FY2020)		Chronology of Rating History for the past 3 years		
			Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 Term Loan	Long Term	15.50	12.45	August 2019 [[ICRA]BB- (Stable)	NA	NA	NA

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	March 28, 2018	13.10%	March 2023	8.00	
NA	Term Loan	July 2018	10.00%	July 2033	2.52	[ICRA]BB- (Stable)
NA	Term Loan	August 2018	12.00%	Aug 2033	4.98	

Source: Suvridha Realtors and Constructions Pvt Ltd

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