February 20, 2020

G Corp Homes Private Limited: Ratings re-affirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	40.00	0.00	-
Long Term - Unallocated	0.00	40.00	[ICRA]BBB (Stable); re-affirmed
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation favourably factors in the relatively low debt level of G Corp Homes Private Limited (GCHPL). The company has no external debt outstanding as on date as it has prepaid project debt outstanding of Rs. 31 crore through unsecured loans from the promoters and internal accruals. The rating also continues to draw comfort from G Corp Group's established track record of operations in the real estate sector. The rating also factors in the favourable location of the company's sole residential project – 'The ICON'.

The rating, however, is constrained by the continued moderate sales velocity and collections achieved in FY2019 and H1FY2020 because of challenging market conditions in the premium residential real estate sector. With the entire inventory in Phase 1 sold out, the company has recently launched additional towers (G and H) in Phase 2. The rating also factors in the company's exposure to execution and market risk in the second phase of the project, with sizeable saleable area close to 1.34 million square feet (mn sqft). The company's ability to maintain the current sales velocity would be critical to meet the large pending costs for Phase 2 of the project.

Key rating drivers and their description

Credit strengths

Moderate capital structure because of low debt levels – At present, the company has no external debt outstanding in its books as it prepaid project debt outstanding of Rs. 31 crore term loan through unsecured loans from the promoters and internal accruals in January 2020. Phase 1 was developed largely through promoter contribution and customer advances. However, the company might avail fresh debt in future as significant cost needs to be incurred in Phase 2, where the balance area to be developed is very high.

Favourable location of GCHPL's sole residential project, 'The ICON' – GCHPL's ongoing residential project is located at Thanisandra Main Road in North Bengaluru with proximity to Manyata Embassy Business Park, which is one of the largest SEZ office parks in Bengaluru, thus enhancing the marketability of the project.

G Corp Group's established track record supports market prospects - G Corp Group has more than two decades of association with the real estate sector, with some notable projects completed in the past.

Credit challenges

Sales and collection remain moderate reflecting challenging market conditions of premium residential real estate projects in Bengaluru- The sales velocity continued to be moderate in H1 FY2020 as the company was able to sell only 0.35 lakh sq. ft. of saleable area during this period as compared to 0.54 lakh sq. ft. in H1 FY2019. Sales and collections have been impacted by the challenging market conditions in premium residential real estate sector.

Exposure to execution and market risks owing to significant size of Phase 2 – The Phase 2 is still in the initial stage of execution, with Tower F launched in July 2016 and Towers G and H newly launched in January 2020, while the remaining towers - I to L - are yet to be launched, depending on the construction and sales progress of ongoing towers. Including the unlaunched portion, Phase 2 has a total saleable area of 1.34 mn sqft with an estimated project cost of Rs. 543 crore, of which Rs. 84 crore (15%) has been incurred till date. However, the company plans to launch the projects tower-wise depending on sales achieved in the ongoing towers, which is expected to mitigate the execution and funding risk to an extent.

Single project concentration risk - The company's cash inflows are entirely dependent on the booking level and the collection efficiency of THE ICON project as it is the sole residential project being developed by the company currently. Hence, the company would be dependent on additional sales and timely collections from the project to fund the balance cost.

Liquidity position: Adequate

GCHPL's liquidity is **adequate** with the current sales velocity and the collections from the customers expected to meet the pending costs of the towers launched for sale. The company had receivables from sold area of Rs 37 crore as on September 2019, including Rs 8 crore from Phase 1, which is completed. With no debt outstanding as on date, the company also has flexibility to raise borrowings in case of any funding requirement.

Rating sensitivities

Positive triggers – The crystallisation of scenarios for rating upgrade is unlikely over the medium term owing to subdued outlook on sales velocity, in line with market conditions for premium residential real estate projects. Nonetheless, substantial improvement in sales velocity, leading to reduction in the funding risks for the ongoing Phase 2 of the project can be a trigger for a positive rating action.

Negative triggers – Negative pressure on GCPHL's rating could emerge if there is weaker-than-expected sales and collections or higher-than-expected debt-funding for development of Phase 2, leading to deterioration in operational or financial risk profile of the company.

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

About the company

GCHPL, a part of G Corp Group, is undertaking its sole real estate project, THE ICON, at Thanisandra in North Bengaluru. The project is spread over land measuring 19.5 acres and is being undertaken under a joint development agreement (JDA) with the land owners. The total saleable area of the project is around 2.34 mn sqft. However, the company is developing the same in phases. The first phase of the project (total saleable area of 1.01 mn sqft.) is complete and handed over to the customers. Tower F of Phase 2 was launched in July 2016 and tower G and H newly launched on January 2020, with the remaining towers, i.e. I to L, expected to be launched depending on construction and sales progress of ongoing towers.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	34.8	75.4
PAT (Rs. crore)	1.3	1.3
OPBDIT/OI (%)	5.6%	2.4%
RoCE (%)	2.5%	2.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.2
Total Debt/OPBDIT (times)	18.5	20.3
Interest Coverage (times)	n.m	n.m
DSCR	0.2	0.2

n.m – not meaningful

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	FY2016
					20-Feb-2020	8-Jan-2019	23-Mar-2018	5-Jul-2017	-	21-Jan-2016
1	Term Loan	Long Term	0.0	0.0	-	[ICRA]BBB(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	-	[ICRA]BBB+ (Stable)
2	Unallocated	Long Term	40.0	0.0	[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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Unallocated	-	-	-	40.0	[ICRA]BBB (Stable)

Source: GCHPL

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About ICRA Limited:

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