

Press Release

Skanda Creations

16 October, 2017

Rating Downgraded



Total Bank Facilities Rated	Rs.5.00 cr.
Long Term Rating	SMERA B/Stable (Downgraded from SMERA B+/Stable)

Rating Rationale

SMERA has downgraded the long term rating on the Rs. 5.00 crore bank facilities of Skanda Creations to **SMERA B (read as SMERA B)** from 'SMERA B+' (read as SMERA B plus) . The outlook is '**Stable**'.

Skanda Creations is a Bangalore-based partnership firm established in 2013 by Mr. Sandeep and Mr. Manjunath. The firm is engaged in real estate development in Bangalore. The firm has completed a residential project (named 'Skanda Elena') at Varthur Hubli, Bangalore in March 2017.

Key Rating Drivers:

Strengths

Experienced management

The partners, Mr. Ramanolla Sandeep and Mr. K. Manjunath have experience of over a decade in the real estate industry.

No project implementation risk

The 'Skanda Elena', project was scheduled to be completed in December 2016. However, due to delays in construction the project was completed in March 2017. The firm is yet to receive the completion certificate. The firm incurred total cost of ~Rs. 35.00 crore on the project. Thus, there exists no project implementation risk.

Weakness:

Low customer advances

The firm received bookings for 76 flats out of the firm's share of 77 flats under the project. Despite project completion, the firm collected customer advances of only Rs. 25.00 crore which is lower than the envisaged sale proceeds of Rs.45 crore. SMERA believes that on the back of low advances, Skanda Creations may face pressures to repay its term loan obligations in a timely manner.

Inherent cyclical nature in the construction sector

The real estate industry in India is highly fragmented with most of the real estate developers, having a city-specific or region specific presence. The risks associated with the industry - cyclical nature of business (drop in property prices), interest rate risk etc. can affect operations of the firm.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm

Outlook: Stable

SMERA believes that Skanda Creations will maintain a Stable outlook in the medium term on the back of its experienced management. The outlook may be revised to 'Positive' if the firm generates steady cash flows from bookings. Conversely, the outlook may be revised to 'Negative' in case of delay in generating cash flows thereby affecting the debt serviceability.

About the Project

Skanda Elena, is a residential project at Varthur Hubli, Bangalore of total 128 flats and saleable area of 180,000 sq. ft. The project is under a joint development agreement with the land owner. Under the project, the land owner has a share of 51 units while Skanda Creations will have 77 units. The project was completed in March 2017 at a total cost of Rs. 35.00 crore and the expected sale proceeds is Rs. 45.00 crore.

About the Rated Entity - Key Financials

For FY2015-16, Skanda Creations reported profit after tax (PAT) of Rs. 0.19 crore on operating income of Rs. 8.11 crore. The total net worth stood at Rs. 0.43 crore as on 31 March, 2016.

Any other information: Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smerra.in/criteria-default.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
04-April, 2016	Term Loan	Long Term	INR 5.00	SMERA B+/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	NA	NA	NA	5.00	SMERA B/Stable (Downgraded)

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ABOUT SMERA

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