

Press Release

Radha Madhav Developers

February 24, 2022



Rating Upgraded and Upgraded & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BB- Upgraded & Withdrawn	-
Bank Loan Ratings	30.00	ACUITE BB- Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	30.00	-	-
Total Withdrawn Quantum (Rs. Cr)	20.00	-	-

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BB-**' (**read as ACUITE double B minus**) from '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs.30.00 crore bank facilities of Radha Madhav Developers (RMD). The outlook is '**Stable**'.

Acuité has also upgraded and withdrawn the rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.20.00 crore bank facilities of RMD. The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating and request received from the company.

Rationale for rating upgrade

The rating upgrade is primarily on account of RMD's healthy sales and collection traction in Vrindavan project over the past 12 months through October 2021. This has indeed helped the firm to improve its liquidity and improve its financial risk profile by improving its capital structure. The rating also draws comfort from the promoter's extensive experience in the regional (Nagpur) real estate segment. The rating is constrained on account of lower sales traction from Gokul project and execution risk for Vrindavan project as the completion is far away (FY2028). The sales and collection traction and timely completion of ongoing project will remain key rating sensitivities.

About the Company

Radha Madhav Developers (RMD) is a partnership firm set up in the year 2013 by Mr. Rajesh Agarwal, Mr. Sanjay Agarwal, and their family members that undertakes residential real estate development projects in Nagpur, Maharashtra region. The firm is currently executing 2 projects – Vrindavan and Gokul, which is spread across 51 acres on a total land bank of 111 acres in Nagpur (Maharashtra).

Analytical Approach

Acuité has considered the standalone view of the business and financial risk profile of RMD to arrive at the rating.

Key Rating Drivers

Strengths

Experienced Management and strong brand presence in the Nagpur region

RMD is engaged in developing residential real estate development projects and it has an established operational track record of over a decade. The firm is currently managed by its partners Mr. Rajesh Agarwal and Mr. Sanjay Agarwal who possesses more than a decade of experience in the real estate industry. The partners are being supported by its team of experienced professionals in managing day to day operations of RMD. The extensive experience of the partners has enabled RMD to establish a healthy relationship with the contractors and the material suppliers.

Acuité believes that the partners experience in the construction and real estate industry and improving demand for the residential units in Nagpur area are expected to support in a successful sale of the units, and timely completion of the projects.

Healthy sales traction from Vrindavan project leading to debt reduction and improving the financial risk profile

RMD has nearly completed 60 percent construction of its Vrindavan project as on 31st Oct 2021. Healthy sales traction is however observed on the sold inventory in this project for the past 12 months. Since October 2020, the firm has reported average quarterly sales of ~Rs. 5.78 Cr. with an average collection of ~Rs.4.48 Cr. which has helped the firm further to fully repay its debt outstanding towards this project and also improve its financial risk profile by reducing the overall debt to a certain extent. Although 40 percent cost is yet to be incurred for the firm till FY2028 (as per RERA) which increases the flexibility available with the promoters towards project completion and the firm is expected to generate higher surplus going forward from this project based on its current level of sales and collection traction.

Weaknesses

Lower sales traction from Gokul project

RMD has fully completed construction of its Gokul project in September 2020 with a cost overrun of ~15.39 percent. However, the firm has generated lower sales traction on the sold inventory in this project for the past 12 months as compared to its Vrindavan project. Since October 2020, the firm has reported average quarterly sales of ~Rs. 0.63 Cr. with collections also at similar level. The firm has been able to complete its construction by infusing unsecured loans from the promoters. The firm however has a debt outstanding now of Rs.30 Crore towards this project for which the repayment will start from December 2022 onwards.

Acuité believes improvement in sales and collection traction of Gokul project will remain a key rating for RMD's ability to generate cash flows commensurate with its repayment obligations.

Inherent cyclical in Real Estate 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 real estate industry are cyclical in nature of business (drop in property prices) and interest rate risk, among others, which could affect the operations. The current market scenario of COVID-19 would impact the completion of ongoing projects as, project sites are shut, migration of labour back to their hometowns and unavailability of raw material. The Real Estate sector is under high stress on account of large amounts of unsold inventory and high borrowing costs. This is primarily attributable to the high residential property prices due to persistent rollover of bank debt, which has a cascading effect on the overall finance costs. Given the high degree of financial leverage, the high cost of borrowing inhibits the real estate developer's ability to significantly reduce prices to augment sales growth.

Rating Sensitivities

- Timely realization of customer advances pending from the sales of unsold inventory
- Lower than expected sales traction leading to increased dependence on debt
- Sharp decline in cash flow, by slackened salability of project or delays in project execution

Material covenants

None

Liquidity Position - Stretched

RMD is expected to generate cash inflows in the range of Rs.43.28 Cr. – Rs.48.13 Cr. –against expected outflows in the range of Rs.37.30 Cr – Rs.45.16 Cr. RMD's ability to maintain sales and collection traction in Vrindavan project and improve traction in its Gokul project will be key in RMD's ability to generate cash flows commensurate with its repayment obligations. RMD is expected to maintain a stretched liquidity profile on account of low buffer between cash inflows and outflows.

Outlook: Stable

Acuité believes that the RMD will maintain 'Stable' business risk profile over the medium term on the back of experienced promoters and strong brand presence in the real estate industry. The outlook may be revised to 'Positive' in case of higher-than-expected advances from customers resulting in adequate cash flows for early completion of the Vrindavan project and prepaying the debt further towards Gokul project. Conversely, the outlook may be revised to 'Negative' in case of any undue delay in completion of the Vrindavan project, or less-than-expected bookings and advance leading to stretch on its liquidity.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	25.33	34.04
PAT	Rs. Cr.	0.05	0.49
PAT Margin	(%)	0.19	1.43
Total Debt/Tangible Net Worth	Times	0.77	0.77
PBDIT/Interest	Times	1.05	1.10

Status of non-cooperation with previous CRA (if applicable)

CARE vide its press release dated 24 August 2021, has mentioned the rating of RMD to 'CARE B/Stable' (Issuer Not Cooperating) as on 24 August 2021.

Any other information

None

Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Real Estate Entities: <https://www.acuite.in/view-rating-criteria-63.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
26 Nov 2020	Term Loan	Long Term	30.00	ACUITE B+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	20.00	ACUITE B+ Stable (Reaffirmed)
12 Dec 2019	Term Loan	Long Term	30.00	ACUITE B+ (Issuer not co-operating*)
	Term Loan	Long Term	20.00	ACUITE B+ (Issuer not co-operating*)
05 Oct 2018	Term Loan	Long Term	25.00	ACUITE B+ Stable (Withdrawn)
	Proposed Bank Facility	Long Term	20.00	ACUITE B+ Stable (Assigned)
	Term Loan	Long Term	30.00	ACUITE B+ Stable (Downgraded from ACUITE BB- Stable)
26 Jul 2017	Term Loan	Long Term	25.00	ACUITE BB- Stable (Downgraded from ACUITE BB Stable)
	Term Loan	Long Term	25.00	ACUITE BB- Stable (Assigned)
04 Jul 2016	Term Loan	Long Term	25.00	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BB- Withdrawn (from ACUITE B+)
Punjab and Sind Bank	Not Applicable	Term Loan	Not available	Not available	Not available	30.00	ACUITE BB- Stable Upgraded (from ACUITE B+)

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About Acuité Ratings & Research

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