

Press Release

V.R. Nachimuthu

June 04, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs.20.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded from ACUITE B+/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE B+**' (read as **ACUITE B plus**) to the Rs.20.00 crore bank facilities of V.R. Nachimuthu. The outlook is '**Stable**'.

The rating upgrade factors in project nearing completion stage, healthy sales progress and comfortable cash flows to complete the project on scheduled time. The rating takes into account the firm's presence in the housing segment for more than three decades. Further, the rating considers extensive experience of the management team in real estate development as well as favourable project location in proximity to physical and social infrastructure. However, the ratings are constrained by low amount of advances received vis-à-vis bookings.

V R Nachimuthu, part of the Coimbatore-based Sakthi Group is a real estate firm, established in September 1962 by the Late Mr. V R Nachimuthu, the founder. The firm constructs luxury villas. V R Nachimuthu has undertaken development of a residential project, 'Ärum Lily' at Kalapatti, Coimbatore.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of V R Nachimuthu to arrive at this rating.

Key Rating Drivers

Strengths

Established Track record of operations:

V R Nachimuthu has an established track record and reputation in the real-estate sector of Tamilnadu, especially in the residential space development segment. The promoters have around two decades of experience in construction and development of properties in their professional capacities. The experience has helped the firm in successful completion of 27 ventures in residential segments in and around Coimbatore, Tamilnadu state. The firm is currently executing a large residential real estate project named Ärum Lily at Kalapatti, Coimbatore with a total saleable area of 253523 sq. ft. The construction started in Q32017 and management expects the projects to be ready for handover by March 2020. The project achieved about 85 percent of physical progress. Acuite believes that the promoters' experience in the real estate industry is expected to support in successful sale of the units, and timely completion of the project.

Low funding risk:

The firm is currently developing a project (Ärum Lily Coimbatore) at a cost of about Rs.47.73 crore. The same is funded out of Rs.20.00 crore debt (42 percent of project cost) and remaining through customer advances and promoters contribution. The firm has drawn about Rs.10.0 crores, and also repaid about Rs.6.00crores; it has undrawn loan balances of about Rs.9.50 crores. Out of 90 villas, 63 Villas are booked with sale value of Rs.96.31 Crs and received customer advances about Rs.31.27 Crs. Acuite believes that the firm is in a comfortable position to complete the project in terms of unsold inventory of about Rs.36 crores, and balance amount receivable on the sold units of about Rs.65.04 crores though the timely receipt and sale of the units are key rating sensitivity factors.

Weaknesses

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 real estate sector is vulnerable to regulatory changes as observed in the past one year with introduction of Goods and Services Tax (GST) and Real Estate Regulatory Authority (RERA) Act which has affected the sales velocity and collections of many incumbents to an extent. Further, the compliance costs for the firm due to GST and RERA are expected to increase. The firm remains exposed to inherent cyclical in the residential real estate industry. The risks associated with real estate industry are cyclical in nature in terms of drop in property prices partly attributed to piling up of high inventory of commercial and residential, economic downturns, building material availability issues, among others and Acuite believes that the firm is exposed to the risk associated with this industry

Liquidity:

V R Nachimuthu's liquidity is comfortable as reflected by expected cash flows against incremental cost for completion of the project about Rs.10-15 crores by December 2019; though the expected cash flows are likely over the next two-three years. The firm has undrawn loan balance of about Rs.9.50 crores and expected more advances from customers which gives comfort for timely completion of the project. Acuite believes that the liquidity of the firm is likely to remain comfortable over the medium term.

Outlook: Stable

Acuite believes that V R Nachimuthu's will maintain 'Stable' business risk profile over the medium term on the back of experienced promoter and long operational track record in the real estate industry. The outlook may be revised to 'Positive' in case of earlier-than-expected sale of the constructed area, and advances from customers resulting in adequate cash flows for early completion of the project. Conversely, the outlook may be revised to 'Negative' in case of less-than-expected bookings or lower than-expected advances from the bookings resulting in delay in project completion and stretch in the liquidity.

About the Rated Entity - Key Financials

	Unit	FY2019 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	14.16	7.82	0.20
EBITDA	Rs. Cr.	3.96	2.09	-0.25
PAT	Rs. Cr.	2.33	1.24	-0.14
EBITDA Margin	(%)	27.97	26.67	-121.56
PAT Margin	(%)	16.45	14.72	-67.98
ROCE	(%)	14.95	11.05	-1.07
Total Debt/Tangible Net Worth	Times	1.66	2.00	1.45
PBDIT/Interest	Times	3.42	2.40	-
Total Debt/PBDIT	Times	4.50	7.40	-
Gross Current Assets (Days)	Days	935	1459	-

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Real Estate Entities- <https://www.acuite.in/view-rating-criteria-41.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16 March, 2018	Term Loan	Long Term	8.00	ACUITE B+ (Upgraded from ACUITE B/Stable)
	Proposed Term Loan	Long Term	12.00	ACUITE B+ (Upgraded from ACUITE B/Stable)
15 Dec, 2017	Term Loan	Long Term	0.45	ACUITE B+ / Stable (Issuer not cooperating)*
19 Aug, 2016	Term Loan	Long Term	20.00	ACUITE B / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	20.00 (Enhanced from 8.00)	ACUITE BB- / Stable (Upgraded)

Contacts

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About Acuité Ratings & Research:

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