

## Press Release

Visvas Promoters Private Limited

January 18, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	58.40	ACUITE BB   Stable   Upgraded	-
Total Outstanding Quantum (Rs. Cr)	58.40	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.58.40 crore bank facilities of Visvas Promoters Private Limited (VPPL). The outlook is '**Stable**'.

## Rationale for the rating upgrade

The rating upgrade is primarily on account of VPPL's healthy sales and collection traction over the past 12 months through December 2020. This has also helped in timely completion of projects and reduction in total debt outstanding thus improving VPPL's financial risk profile. The rating also draws comfort from the promoters extensive experience in the regional (Madurai) real estate segment. The rating contained on account moderate execution risk in VPPL's ongoing projects and its exposure the inherent cyclicity in the real estate market. The sales traction and timely completion of ongoing projects will remain key rating sensitivities.

## About the Company

Incorporated in September 2000, VPPL is a Madurai-based (Tamil Nadu) residential real estate developer promoted by Mr. S Seetharaman. The company is engaged in development and construction of residential township across Madurai (Tamil Nadu). Currently it has two key on going projects Vibhava Phase 3 and Viprosaa Phase 3 started in January 2022. VPPL has completed its 3 projects - Supraja, Vidyavahini Phase 3 and Viprosaa Phase 2.

## Analytical Approach

Acuite has considered the standalone business and financial risk profile of VPPL to arrive at the rating.

## Key Rating Drivers

### Strengths

#### Experienced promoters and strong brand presence in the Madurai region

VPPL is promoted and managed by Mr. S Seetharaman (Managing Director) who possesses experience of four decades in the real estate industry. The senior management team is ably supported by a strong line of mid-level managers. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. The promoters have successfully completed 20 projects in the past under VPPL.

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

### **Healthy sales traction leading to timely completion of projects and debt reduction**

VPPL has completed construction of three projects in the past year - Supraja, Vidyavahini Phase 2 and Viprosaa Phase 2. Also project Vibhava Phase 1 and Vidyavahini Phase 1 (Part) are near completion. Healthy sales traction is observed on the unsold inventory in the above mentioned project for the past 12 months. Since December 2020 VPPL has reported average quarterly sales of ~Rs. 8 Cr. with collections also at similar level. This has helped VPPL reduce its debt outstanding. Total long term outstanding debt stood Rs. 40 Cr. as on March 31, 2021 which decreased to ~Rs. 29 Cr. as on November 30, 2021. Gearing also improved to 1.42 times as on March 31, 2021 against peak gearing of 1.82 times as on March 31, 2019. Currently, as on January 2022 the company has begun work on two key projects Vibhava Phase 3 and Viprosaa Phase 3. Further it has unsold inventory worth Rs. 38 Cr. in its completed and near completion projects.

Acuité expects the sales traction on the unsold inventory in existing projects and the customer acceptability of the newly started projects will be a key rating sensitivity over the medium term.

### **Weaknesses**

#### **Moderate project execution risk**

VPPL has started construction on two key project very recently in January 2022 - Vibhava Phase 3 and Viprosaa Phase 3 which are expected to be completed by September 2024 and December 2023 respectively. The total project cost is expected to be Rs. 70 Cr. for Viprosaa and Rs. 14 Cr. for Vibhava. VPPL will be constructing 115 independent units under Viprosaa and 40 independent units under Vibhava. Both the projects are located in Madurai. These are expected to be funded by promoters funds and customer advances. Currently, as per the management there are no plans of raising additional debt for these projects. They are a very early stage of completion as they have started in January 2022 itself and therefore are exposed significant demand and execution risk. The projects are new phases for already completed projects and therefore the demand risk is mitigated to some extent as past track record of demand is available. The execution risk is also mitigated to some extent as these are independent villa which will be developed horizontally. This gives greater flexibility to management with matching pace of construction with sales and realisation of customer advances thus reducing risk of cash flow mismatches. However, customer acceptability and completion of these projects without significant time and cost over runs will remain key rating sensitivity.

#### **Inherent cyclicity 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 sold 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: Adequate

The VPPL has an adequate liquidity position supported by steady funds infusion by promoters and adequate cushion between customer advances to its maturing debt obligations. Liquidity is supported by good salability as well as collections in the recently completed projects. VPPL is expected to generate cash inflows in the range of Rs. 10 – 20 Cr. over FY2022-FY2023 against repayment of Rs. 7-8 Cr. for the same period.

### Outlook: Stable

Acuité believes that the VPPL 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 project and prepaying the debt. Conversely, the outlook may be revised to 'Negative' in case of any undue delay in completion of the project, or less-than-expected bookings and advance leading to stretch on its liquidity.

### Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	24.89	32.55
PAT	Rs. Cr.	0.89	0.66
PAT Margin	(%)	3.59	2.02
Total Debt/Tangible Net Worth	Times	1.39	1.46
PBDIT/Interest	Times	1.20	1.15

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

Not Applicable

### Any other information

Not Applicable

### 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
24 Aug 2020	Proposed Bank Facility	Long Term	16.40	ACUITE BB-   Stable (Upgraded from ACUITE B+)
	Term Loan	Long Term	20.00	ACUITE BB-   Stable (Upgraded from ACUITE B+)
	Term Loan	Long Term	22.00	ACUITE BB-   Stable (Upgraded from ACUITE B+)
24 Feb 2020	Term Loan	Long Term	58.40	ACUITE B+ (Issuer not co-operating*)
07 Dec 2018	Term Loan	Long Term	58.40	ACUITE B+   Stable (Reaffirmed)
27 Nov 2018	Term Loan	Long Term	38.40	ACUITE B+   Stable (Reaffirmed)
05 Mar 2018	Term Loan	Long Term	38.40	ACUITE B+ (Issuer not co-operating*)
23 Nov 2016	Term Loan	Long Term	38.40	ACUITE B+   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	28.76	ACUITE BB   Stable   Upgraded ( from ACUITE BB- )
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	3.94	ACUITE BB   Stable   Upgraded ( from ACUITE BB- )
IDBI Bank	Not Applicable	Term Loan	Not available	Not available	Not available	3.70	ACUITE BB   Stable   Upgraded ( from ACUITE BB- )
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	3.88	ACUITE BB   Stable   Upgraded ( from ACUITE BB- )
IDBI Bank	Not Applicable	Term Loan	Not available	Not available	Not available	18.12	ACUITE BB   Stable   Upgraded ( from ACUITE BB- )

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### About Acuité Ratings & Research

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