

Press Release

Visvas Promoters Private Limited

April 18, 2023



Rating Reaffirmed

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

Rating Rationale

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

Rationale for rating reaffirmation

The rating reaffirmation is primarily on account of stable sales and collection generated by VPPL in its ongoing projects during the review period. The company has also completed two of its ongoing projects this year. This has further brought down its total outstanding debt as on date, thus improving the overall financial risk profile. The rating also draws comfort from the extensive experience of the promoter in the regional (Madurai) real estate segment. The rating is however constrained on account of moderate execution risk in VPPL's ongoing projects and its exposure to 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

VPPL incorporated in 2000, is a Madurai based residential real estate developer promoted by Mr. S Seetharaman. The company is engaged in development and construction of residential township across Madurai in Tamil Nadu. Currently, it has four key on-going projects – Supraja, Vibhava Phase II – Block D and Block G, Aprameya and Virat Phase II – Block C and Block D. VPPL has completed its two projects - Vibhava Phase I and Vidyavahini Phase I (Part).

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 promoter is reflected through the established relationship with its customers and suppliers. The promoter has 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 and successfully sold all the units of its previously two ongoing projects i.e. Vibhava Phase I in June 2022 and Vidyavahini Phase I (Part) in July 2022. In addition to this, two of the ongoing projects are currently in the advanced stage of completion i.e. Supraja (extended phase) which is 63 percent completed and Vibhava Phase II – Block D and Block G which is 71 percent completed as on December 31, 2022. Implementation risk remains lower for both the projects as they got started in April 2022 and September 2021 respectively and are expected to be completed by December 2024 and June 2024 respectively. Currently in FY2023, the company has begun work on two new projects i.e. Aprameya (erstwhile known as Viprosa Phase III) and Virat Phase II – Block C and Block D.

Healthy sales traction is observed in all the above-mentioned projects. Since April 2022 to February 2023, VPPL has reported average quarterly sales of ~Rs. 7 Cr. with collections also at similar level. The past track record of timely completion of the projects by the company and healthy sales traction has enabled to reduce its debt outstanding. Total long-term debt outstanding of VPPL from the bank got reduced to Rs.30 Cr. as on March 31, 2022 as against Rs.40 Cr. as on March 31, 2021. Gearing of the company also stood improved at 1.11 times as on March 31, 2022 as against 1.31 times as on March 31, 2021.

Acuité expects the sales traction on the unsold inventory in its 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 projects very recently in September 2022 and November 2022 i.e. Aprameya (erstwhile known as Viprosa Phase III) and Virat Phase II – Block C and Block D which are expected to be completed by December 2024 respectively. The total project cost is expected to be Rs.54 Cr for Aprameya and Rs.18 Cr for Virat Phase II – Block C and Block D. VPPL will be constructing 151 independent units under Aprameya (erstwhile 115 units) and 52 independent units under Virat Phase II - Block C and Block D. Aprameya is funded by promoters funds and customer advances without raising additional debt whereas Virat Phase II - Block C and Block D is funded by raising additional debt and promoters funds. Both the projects are at a very early stage of completion and are exposed to significant demand and execution risk.

However, 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 villas 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 the 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 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 saleability of project or delays in project execution

Material covenants

None

Liquidity position - Adequate

VPPL has an adequate liquidity position supported by steady fund infusion by the promoter and adequate cushion between customer advances to its maturing debt obligations. Liquidity is also supported by good saleability as well as collections in the recently completed projects. VPPL is expected to generate cash inflows in the range of Rs.35 Cr to Rs.45 Cr over FY2023 to FY2024 against its repayment obligation in the range of Rs.6 Cr to Rs.7 Cr. for the same period.

Outlook: Stable

Acuité believes that 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 advances leading to stretch on its liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	36.43	25.03
PAT	Rs. Cr.	0.58	0.89
PAT Margin	(%)	1.60	3.57
Total Debt/Tangible Net Worth	Times	1.11	1.31
PBDIT/Interest	Times	1.19	1.20

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

Not applicable

Any other information

None

Applicable Criteria

- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- 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>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general

understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Jan 2022	Proposed Bank Facility	Long Term	28.76	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Term Loan	Long Term	3.70	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Term Loan	Long Term	3.88	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Term Loan	Long Term	18.12	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Term Loan	Long Term	3.94	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
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*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.77	ACUITE BB Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.33	ACUITE BB Stable Reaffirmed
IDBI Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.29	ACUITE BB Stable Reaffirmed
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.00	ACUITE BB Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.13	ACUITE BB Stable Reaffirmed
IDBI Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.96	ACUITE BB Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	20.00	ACUITE BB Stable Reaffirmed
IDBI Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	15.92	ACUITE BB Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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