

Press Release

Regal Developers & Associates

April 27, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 5.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA BB**) on the Rs. 5.00 crore bank facilities of Regal Developers & Associates. The outlook is '**Stable**'.

Established in 1994 as a partnership firm, Regal Developers & Associates (RDA) is engaged in the construction of residential complexes in Udupi, Karnataka.

Key Rating Drivers

Strengths

- **Experienced management**

RDA was established by Mr. Praveen Chandra Suvarna, Mr. Terence Victor Suares and Mr. Shivaprasad Shetty. The partners have nearly 25 years of experience in the real estate sector and have successfully completed over 14 projects in Udupi. RDA has its own civil construction firm - Regal Builders (RB). RDA is expected to benefit substantially from the synergies between RB and RDA resulting in economies of scale and healthy margins. SMERA believes that RDA will benefit substantially from its partners' long standing relationships with various financial institutions, suppliers and EPC contractors.

- **Healthy level of bookings and advances**

RDA has recently completed its flagship project - 'Regal Woods' in Udupi at a total cost of Rs. 31.80 cr. The project has been mainly funded by advances received from customers and internal accruals generated from the previously completed projects of the firm in addition to a medium term loan of Rs. 2.50 cr from a banking institution. The firm has received approximately 70 per cent of the expected revenue in the form of customer advances while approximately 76 percent of the total saleable area has been booked as on 20 March, 2017. SMERA expects the firm to maintain healthy debt service coverage ratio over the medium term on account of substantial traction in collection of advances from buyers and healthy level of bookings.

Weaknesses

- **Modest scale of operations**

The rating is constrained by the modest scale of operations marked by a small networth base of Rs.3.23 cr as on 31 March, 2016 as compared to Rs. 2.92 cr as on 31 March, 2015. Notwithstanding the infusion of equity capital by the promoters, SMERA expects RDA's networth base to remain modest in the medium term. RDA has primarily been engaged in undertaking small real estate projects with a total estimated cost of upto Rs. 15 cr. The firm's ability to scale up operations while maintaining its prudent capital structure shall be a key credit monitorable.

- **Intense competition**

The firm's credit risk profile is constrained by the intense competition in the real estate industry along with exposure to project specific risks.

Analytical Approach

SMERA has taken a standalone view of the above entity.

Outlook: Stable

SMERA believes that RDA will maintain a stable outlook in the medium term on account of its experienced management and limited exposure to project risks. The outlook may be revised to 'Positive' in case of higher than expected advances received by the firm and lower than expected movement in gearing. Consequently, the outlook may be revised to 'Negative' in case of lower than expected offtake from the existing projects and/or substantial increase in overall debt level of the firm.

About the Rated Entity - Key Financials

SMERA believes that RDA will benefit substantially from its partners' long standing relationships with various financial institutions, suppliers and EPC contractors. The partners have also formed their own construction company - Regal Builders. RDA is expected to benefit significantly from the synergies between Regal Builders and RDA - while operating at an arms length. The firm reported net profit of Rs. 0.37 cr on an operating income of Rs.0.15 cr in FY2015-16 as compared with net profit of Rs.0.52 cr on operating income of Rs. 0.86 cr in FY2014-15.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Complexity Level Of Financial Instruments - <https://www.smera.in/criteria-complexity-levels.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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 loans	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA BB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA BB / Stable

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in

Arindam Som Analyst - Rating Operations Tel: 011-49731321 arindam.som@smera.in	
-----------------------------------------------------------------------------------------------------------------------------------	--

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: *A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.*