

Press Release

Durga Builders (DB)

23 May, 2017

Rating Assigned

| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs.6.22 Cr |
| Long Term Rating | SMERA BB+/Stable (Assigned) |

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of **‘SMERA BB+’ (read as SMERA double B plus)** on the Rs.6.22 crore bank facilities of Durga Builders (DB). The outlook is **‘Stable’**.

Durga Builders (DB), established in 2011 is a Hyderabad-based real estate firm promoted by Mr. T. Srinivasulu and Mr. T. Ramulamma. The firm is engaged in the development of real estate projects in and around Hyderabad.

List of key rating drivers and their detailed description:

Strengths:

Experienced management: The promoters of the firm, Mr. T. Srinivasulu and Mr. T. Ramulamma have an overall experience of around a decade in the development of residential property.

Healthy level of booking and advances: DB is presently engaged in construction of two projects – Durga Homes – Phase II & Durga Homes at Ammenpur & Hafizpet respectively.

The Durga Homes – Phase II is a residential project with a total saleable area of 2.11 lakh Sq. feet and the total cost is around Rs.75.00 cr which includes a land cost of Rs.15.00 cr. The project is at advanced stage of construction as 80 percent has been completed. 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 term loan of Rs. 6.22 cr from a banking institution. The firm has received approximately 60 per cent of the expected revenue in the form of customer advances against approximately 67 percent of the total saleable area has been booked as on 31st March, 2017. The project is expected to get completed by August, 2018.

DB has its another project named Durga Homes with a total saleable area of 0.14 lakh Sq. feet and the total cost is around Rs.4.90 cr which includes a land cost of Rs.2.80 cr. The project has been mainly funded by internal accruals generated from the previously completed projects of the firm. The project is at nascent stage of development with a total construction of 4 villas and is expected to get completed by December, 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 operating income of Rs.0.39 crore in FY2016 as compared to 0.29 crore in FY2015. DB has primarily been engaged in undertaking small to medium real estate projects with a total estimated cost of upto Rs. 75 cr. The firm's ability to scale up its operations while maintaining its prudent profitability structure shall be a key credit monitorable.

Inherent cyclicity in the 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 nature of business (drop in property prices), interest rate risk that can affect operations.

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 considered the standalone business and financial risk profile of the firm.

Applicable Criteria

- Infrastructure Entities - <https://www.smera.in/criteria-complexity-levels.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that the firm will maintain a stable outlook in the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the firm generates steady cash flows from customer advances. Conversely, the outlook may be revised to 'Negative' in case of stretch in liquidity position on account of delays in project execution or collection of booking money.

About the Rated Entity – Key Financials

SMERA believes that DB will benefit substantially from its partners' long standing relationships with various financial institutions, suppliers and EPC contractors. The firm reported net profit of Rs. 0.07cr on an operating income of Rs.0.39 cr in FY2015-16 as compared with net profit of Rs.0.12 cr on operating income of Rs. 0.29 cr in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

| Name of Instrument /Facilities | FY 2018 | | | FY 2017 | | FY 2016 | | FY 2015 | |
|--------------------------------|---------|--------------------|-----------------------------|---------|--------|---------|--------|---------|--------|
| | Scale | Amount (Rs. Crore) | Rating with Outlook | Date | Rating | Date | Rating | Date | Rating |
| Term Loan | LT | 6.22 | SMERA BB+/Stable (Assigned) | - | - | - | - | - | - |

***Annexure – Details of instruments rated:**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/ Outlook |
|------------------------|------------------|-------------|---------------|-------------------------------|-----------------------------|
| Term Loan | N.A | N.A | N.A | 6.22 | SMERA BB+/Stable (Assigned) |

Note on complexity levels of the rated instrument:

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

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ABOUT SMERA

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