

Press Release

Avadh Infra Project

14 March, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 74.00 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**) on the Rs. 74.00 crore bank facility of Avadh Infra Project (AIP). The outlook is '**Stable**'.

AIP is a Surat-based real estate firm established in 2013 by Mr. Dilipbhai D. Undhad, Mr. Bharatbhai D. Undhad, Mr. Lavjibhai D. Daliya and others. The firm is engaged in the development of residential and commercial projects in Surat, Gujarat. Currently, construction of one residential project is underway under the name 'Avadh Copper Stone'.

About the Project

AIP is presently constructing a residential project of 668 apartments (4 BHK units) under the name 'Avadh Copper Stone' with total carpet area of 1,273,060 square feet. However, the firm plans to avail bank borrowings for only 552 apartments the cost of which is estimated at Rs. 130.65 crore. The expected sales proceeds are Rs. 204.65 crore. The aforementioned project cost is expected to be funded through promoter's capital of Rs. 27.84 crore, unsecured loan from related parties of Rs. 18.88 crore, customer advances of Rs. 21.84 crore and bank borrowings of Rs. 62.00 crore.

List of key rating drivers and their detailed description

Strengths:

Experienced promoters

The partnership firm was established to set-up the aforementioned residential project. The partners, Mr. Dilipbhai D. Undhad, Mr. Lavjibhai D. Daliya among others collectively possess around 16 years of experience in the Surat real estate market. The promoters have successfully completed around 18 projects - residential and commercial with average ticket size of around Rs. 50.00 crore in Surat.

Favourable project location

The said project is located at Dumas Road, Surat with close proximity to Surat Airport, schools, malls and the highway. The project is also close to the popular Dumas beach. The firm has reported modest booking of 242 units out of the total 552.

Advanced stage of project completion

Construction of the Avadh Copper Stone project commenced in December 2015 and was scheduled to be completed by December, 2017. However, the project got delayed due to demonetisation, implementation of GST and RERA registration. It is now expected to be completed by end of March, 2018. The firm has incurred project cost of around 91 percent as on 8 January, 2018 at Rs. 118.41 crore out of the total cost of Rs. 130.56 crore (Construction + overheads + interest during implementation + land cost). The

incurred cost has been funded through promoter's capital of Rs. 27.84 crore, unsecured loan from related parties of Rs. 15.87 crore, customer advances of Rs. 20.68 crore and bank borrowings of Rs. 54.02 crore.

Weaknesses:

Low customer advances

The firm has received bookings for 242 units out of 552 and customer advances of Rs. 20.68 crore as on 8 January, 2018 against total sales consideration of around Rs. 89.54 crore. The total customer advances for project completion is Rs. 21.84 crore. Hence, going forward, the ability of the firm to generate steady flow of customer advances will be the key rating sensitivity.

Inherent cyclical in the construction 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 real estate industry are – cyclical nature of business (drop in property prices), interest rate risk etc. that can affect operations.

Stiff competition from ongoing and new projects in the vicinity

The Surat real estate market has grown significantly in the recent years with several townships coming up and conglomerates setting up shop. This has resulted in increase in demand for residential and commercial property. The firm faces competition from other builders including Milestone Group, Happy Home Group and Western Group to name a few.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Avadh Infra Project for arriving at the rating.

Outlook: Stable

SMERA believes that the firm will maintain a Stable outlook in the medium term owing to the extensive experience of the management in the industry. 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 on account of delays in project execution or collection of booking money.

About the Rated Entity –Key Financials

Particulars	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	6.23	11.03	-0.06
EBITDA	Rs. Cr.	3.70	10.89	0.76
PAT	Rs. Cr.	0.51	9.72	0.00
EBITDA Margin	(%)	59.32	98.67	-1325.56
PAT Margin	(%)	8.11	88.09	0.00
ROCE	(%)	0.00	0.00	0.00
Total Debt/Tangible Net Worth	Times	1.38	0.78	0.97
PBDIT/Interest	Times	1.10	7.33	1.03

Applicable Criteria

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

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

Any other information: Not Applicable

Rating History for the 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. Crore)	Ratings/ Outlook
Term Loan I	Not Applicable	Not Applicable	Not Applicable	74.00	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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