

Press Release

Sumangalam Developers

June 24, 2019



Rating Update

Total Bank Facilities Rated*	Rs. 20.00 Crore
Long Term Rating	ACUITE BB-/ Outlook: Stable (Downgraded from ACUITE BB+)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded a long-term rating of '**ACUITE BB+** (read as ACUITE double B plus) to '**ACUITE BB-**' (read as ACUITE double B minus) on the Rs. 16.20 crore bank facilities of Sumangalam Developers (SD). The outlook is '**Stable**'.

Acuité has assigned a long-term rating of '**ACUITE BB-**' (read as ACUITE double B minus) on the Rs. 3.80 crore bank facilities of SUMANGALAM DEVELOPERS (SD). The outlook is '**Stable**'.

The downward revision in rating is on account of less than expected booking positions and insufficient realization of customer advances. The revision in the outlook is based on Acuité's expectation that, the business profile of SD is expected to be under stress over near to medium term. Any further deterioration in the revenues or operating measures will impart a further downward bias to the rating.

Rajasthan-based, Sumangalam Developers is a partnership firm established on 8th July, 2015. It is part of the Sumangalam Group which was established in 2001. The group is engaged in the real estate business and has developed several residential and commercial projects. Led by Mr. Ishwar Lal Saini, it has recently completed the construction of a multistoried residential project 'Shubh Atlantis' at Kota, Rajasthan.

Analytical Approach

The team has taken a standalone view of the business and financial risk profile of SUMANGALAM DEVELOPERS to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

Sumangalam developers is promoted by Mr. Ishwar Lal Saini and his family and collectively they possess more than two decades of experience in the real estate industry via the sister concern company M/s Sumangalam Buildmart Private Limited.

- **Project completion and low funding risk**

The firm has developed a commercial project – 'Shubh Atlantis' a multistoried residential project located at Plot No. 1, Vivekanand Nagar, Opposite Kota University, Kota. The Project was started in January 2016 and got completed on 31st March, 2019. The project has 2 towers having total saleable area of 3.19 lakhs square feet to construct 256 residential flats at a total project cost of Rs. 76.00 crore. It was funded through promoter's infusion of Rs. 21.54 crore, term loan of Rs. 18.7 crore and advances from customers Rs. 35.76 crore as on 31st March 2019.

Weaknesses

- **Inherent cyclical in 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. Furthermore, in light of the ongoing economic downturn, the sector is facing issues on many fronts. These include subdued demand, curtailed funding options, rising costs, restricted supply due to delays in approvals, etc., thereby, resulting in the stress on cash flows.

- **Lower than expected booking position:**

As on 31st March 2019, the project "Shubh Atlantis" has been completed and 171 units out of 256 have been booked however there is minor increase in number of booked units compared to the last year where the number of booked units stood at 140. In addition to that the total value of booked units is Rs. 63.00 crore out of which customer advances received against bookings is only Rs. 35.76 crore as on 31st March, 2019.

Liquidity Position:

SD has moderate liquidity marked by moderate net cash accruals to no maturing debt obligations. The company generated cash accruals of Rs. 0.97 crore for FY2019 (Provisional) while there were no maturing debt obligations for the same period. The company's working capital operations are intensive marked by gross current asset (GCA) days of 587 days for FY2019 (Provisional). The working capital limit remains utilized over 90 per cent during the last 6 months period ended on March, 2019 (Provisional). The current ratio stands at 7.32 times as on 31 March 2019 (Provisional). Acuité believes that the liquidity of the company is likely to remain moderate over the medium term on account of moderate cash accrual against no major debt repayments over the medium term.

Outlook: Stable

ACUITE believes the SD will maintain its business risk profile in the medium term backed by its experienced management and established presence of the group in the real estate 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 the firm's liquidity position on account of delays collection of booking money.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	30.29	28.16	13.56
EBITDA	Rs. Cr.	1.15	2.64	1.68
PAT	Rs. Cr.	1.10	2.59	1.63
EBITDA Margin	(%)	3.78	9.39	12.35
PAT Margin	(%)	3.08	9.12	12.01
ROCE	(%)	3.48	14.78	19.53
Total Debt/Tangible Net Worth	Times	1.22	0.96	0.20
PBDIT/Interest	Times	5.55	88.99	252.43
Total Debt/PBDIT	Times	19.81	4.25	1.19
Gross Current Assets (Days)	Days	587	482	805

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Entities in Real Estate -<https://www.acuite.in/view-rating-criteria-41.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of the instrument/ facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
28 Mar, 2018	Term Loan	Long-Term	20.00	ACUITE BB+/ Stable (Assigned)

*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 Loan	Not Applicable	Not Applicable	Not Applicable	16.20	ACUITE BB-/ Stable (Downgraded from BB+)
Proposed Facilities	Not Applicable	Not Applicable	Not Applicable	3.80	ACUITE BB-/ Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Nikhilesh Pandey Rating Analyst - Rating Operations Tel: 011-4973 1306 nikhilesh.pandey@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in) for the latest information on any instrument rated by Acuité.