

Press Release

Arihant Realtors

August 29, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 195.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE BBB minus**) on the Rs. 195.00 crore bank facilities of Arihant Realtors (AR). The outlook is '**Stable**'.

Established in 2006, Arihant realtors (AR) is a Special Purpose Vehicle (SPV) promoted by Mumbai based A & O group, engaged in the business of real estate development. Presently the firm is developing a Slum redevelopment residential project, 'F-residencies' located in Ghatkopar East. AR is a partnership firm with Mr. Chetan Bhanushali (1%), Mr. Praveen Girish Chamaria (1%), Ashapura Edifice Private Limited (62%) and Ashapura Options Private Limited (1%) holding majority stake.

Analytical Approach

Acuité has consolidated the financial and business profiles of Arihant Realtors, Charmee Enterprises and KMC Developers together referred to as the A&O Group. The consolidation is in view of the common ownership, and similar line of business.

Key Rating Drivers

Strengths

- **Established track record and resourceful promoter group:**

Ashapura group, founded by Mr. Chetan Sunderji Bhanushali, is a well-established group having business vintage of more than 10 years in real estate development with an expertise in Slum Rehabilitation Authority (SRA) projects.

Options group, founded by Mr. Girish Patel, is a retail brand since 1985 and made its foray in real estate development in 2005. Since then, Options group has successfully delivered 20 projects with carpet area of around 3, 54,279 square meters in and around Mumbai. Presently the group is managed by Mr. Pravin Girish Chamaria, son of Mr. Girish Patel.

In 2008, the two groups started executing projects together under the brand name A & O reality. The group has come together with the purpose of providing affordable housing to masses by executing various SRA & re-development projects and have delivered 12 projects as of March 31, 2018 (including rehabilitation buildings) having carpet area of around 2.06 lac square meters. Presently there are ~7 ongoing projects at different stages of construction.

Arihant Realtors, Charmee Enterprises and KMC developers are SPVs of A & O group and are financially backed by promoter group with 65 percent, 32 percent and 85 percent holding respectively. The three SPVs are presently developing Slum redevelopment projects namely 'F- residencies', Florante and KMC having funding support of 23.88 percent, 22.24 percent and 17.59 percent respectively from promoters, majority of which is already infused.

Acuité believes that the groups established track record of successful project execution and brand presence along financial backing from promoter group will continue to support its business risk profile over near to medium term.

Weaknesses

- **High salability and execution risk:**

The three entities are currently executing Slum rehabilitation projects for which all of required slum clearances have already been done. 'F-Residencies' project which is developed by Arihant Realtors is 53 percent complete wherein of the total cost of Rs. 512.42 crore, Rs. 276.62 core is incurred till June 15, 2018 and 25 percent of the total saleable area has been sold. The firm has completed the rehabilitation building and tenant have already been given possession. The sale building comprises five wings of which two wings A&B are almost complete. Arihant Realtors however is yet to commence the execution of wing C & D. AR plans to complete the construction of wing C, D& E by December 2021. Considering, the extent of execution, the progress of execution of wing C, D& E is likely to remain a key rating sensitivity factor over the medium term.

In Florante project, Charmee enterprises has already incurred Rs. 44.19 crore (37 percent) of the total project cost of Rs. 118.99 crore and 24 percent of the total saleable area is sold. Since, the company constructs and completes the rehabilitation building before commencing the construction of sale building, they are highly dependent on external funding sources during the initial phase of the project in view of lower advances against the sale building. KMC project developed by KMC developers has incurred Rs. 26.84 crore (12 percent) of the total project, cost of Rs. 215.91 crore and the project is yet to be launched.

The traction in receipt of customer advances is dependent on project completion. The firm's ability to execute projects as per schedule is highly dependent on timely receipt of regulatory approvals along with customer advances, which forms major chuck of the total funding requirement of the projects.

Therefore, Acuite believes that the group's ability to execute the projects as per schedule and achieve sales will remain key rating sensitivity.

- **Susceptibility to Real Estate Cyclical and Regulatory Risks:**

A&O is exposed to the risk of volatile prices on account of frequent demand supply mismatches in the industry. 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 developers' ability to significantly reduce prices to augment sales growth. Further, the industry is exposed to regulatory risk which is likely to impact players like A & O thereby impacting its operating capabilities.

Outlook: Stable

Acuité believes that Arihant Realtors will maintain a stable outlook over medium term on account of established track record and expected increase in the demand for the affordable housing projects. The outlook may be revised to positive in case the company achieves significantly higher than expected customer advances and achieves project execution as per schedule. Conversely, the outlook may be revised to Negative in case of slower than expected customer advances or in case of delay in project execution.

About the project:

Arihant Realtors is presently executing a project 'F-residencies' which is a premium line project. The project is a Re-development project under the slum rehabilitation scheme located in Ghatkopar. The land area is 2.74 acre and the saleable area is 3, 22,560 sq.ft.

The project cost is Rs. 512.42 crore and total receivables of Rs. 677.3 crore. The project comprises a rehabilitation building of 17 floors and a sale building with five wings i.e. A, B, C, D and E of 16 floors each. The A and B wing are registered with RERA with Registration no. P51800007550 and completion date as 31/07/2019. The firm has received occupancy certificate for the rehab building and in the sale building A and B wings are complete and C D and E wings are yet to commence.

The project is sourced through promoter's contribution of Rs. 122.38 crore, customer advances of Rs. 175.04 crore and project loan of Rs. 215.00 crore.

About the Rated Entity - Key Financials

	Unit	FY17* (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	80.49	NA	NA
EBITDA	Rs. Cr.	3.31	NA	NA
PAT	Rs. Cr.	1.83	NA	NA
EBITDA Margin	(%)	4.11	NA	NA
PAT Margin	(%)	2.28	NA	NA
ROCE	(%)	1.98	NA	NA
Total Debt/Tangible Net Worth	Times	7.51	NA	NA
PBDIT/Interest	Times	190.23	NA	NA
Total Debt/PBDIT	Times	39.22	NA	NA
Gross Current Assets (Days)	Days	1,318	NA	NA

*commercial operations are started in FY2017

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Real Estate Entities- <https://www.acuite.in/view-rating-criteria-41.htm>
- Consolidation of Entities: <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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 Loan	Not Applicable	Not Applicable	Not Applicable	180.00	ACUITE BBB- / Stable
Proposed Term loans	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- / Stable

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About Acuité Ratings & Research:

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