

Press Release

Arihant Realtors

November 13, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs.195.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB-/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to Rs.195.00 crore bank facilities of Arihant Realtors (AR). The outlook is '**Stable**'.

The rating downgrade reflects deterioration in the group's financial risk profile because of weaker operating performance in FY2019.

The sales under project F residencies and Florante are slower than Acuite's expectation. The sales are likely to remain muted due to slowdown in the real estate segment, especially under 2/3/4 BHKs. In the view of slower sales and limited re-financing options, the company may witness liquidity pressure over the near to medium term.

Established in 2006, Arihant realtors (AR) is a Special Purpose Vehicle (SPV) promoted by Mumbai based A & O Realty, 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.

About the group

Established in 2008, KMC developers (KMC) is a Special Purpose Vehicle (SPV) promoted by Mumbai based A & O Realty, engaged in the business of real estate development. Presently the firm is developing a Slum redevelopment residential project, KMC located at Borivali East. KMC is a partnership firm wherein AOPL is holding 85 stake.

Established in 2003, Charmee Enterprises (CE) is a Special Purpose Vehicle (SPV) promoted by Mumbai based A & O Realty, engaged in the business of real estate development. Presently the firm is developing a Slum redevelopment residential project, Florante located at Andheri East. CE is a partnership firm with AOPL holding 32 percent stake.

Analytical Approach

Acuite 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. Extent of consolidation: Full

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 Realty. The group has come together with the purpose of providing affordable housing to masses by executing various SRA & re-development projects. Presently there are ~10 ongoing projects at different stages of construction.

Arihant Realtors, Charmee Enterprises and KMC developers are SPVs of A & O Realty with promoters shareholding of 65 percent, 32 percent and 85 percent respectively. The three SPVs are presently developing Slum redevelopment projects namely 'F- residencies', Florante and KMC having funding support of 30.73 percent, 36.59 percent and 11.56 percent respectively from promoters, majority of which is already infused.

Acuite 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 medium term.

Weaknesses

• Salability and execution risk

'F-Residencies' project which is developed by Arihant Realtors is 62 percent complete wherein of the total cost of Rs. 512.42 crore, Rs. 322.29 crore is incurred as on June 30, 2019 and ~28 percent of the total saleable area has been sold, reflecting slower pace of advances. 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 completed on July 30, 2019. AR however is yet to commence the execution of wing C, D & E. AR plans to commence the construction of wing C & D by December 2019 and complete the execution by March 2022. Considering, the extent of execution and the tepid response received so far, 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. 64.68 crore (44 percent) of the total project cost of Rs. 147.58 crore and 18 percent of the total saleable area is sold as on June 30, 2019. 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. 38.97 crore (11 percent) of the total project, cost of Rs. 363.20 crore (revised from Rs.363.20 crore) as on June 30, 2019 however 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 portion 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 cyclicity 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.

Rating Sensitivities

- Further delay in execution of the projects which may lead to further reliance on refinancing.
- Project execution as per schedule.

Material Covenants

None

Liquidity Position: Adequate

The group has adequate liquidity position marked by the moderate customer advances and receivables to its maturing debt obligations. The group is mainly dependent on customer advances for its project funding and debt repayment. The group has outstanding debt for its project to the tune of Rs.55.72 crore as on June 30, 2019 out of which, the repayment of term loan to the tune of Rs.21.00 crore will commence from March 2022 while repayments for term loan of Rs.34.72 crore has already commenced. The group has Rs.36.28 crore receivable on sold flats as on June 30, 2019.

Outlook: Stable

Acuite believes that A & O group will maintain a stable outlook over medium term on account of established track record and strong presence in Slum Rehabilitation Authority (SRA) sector. The outlook may be revised to positive in case the group achieves higher than expected customer advances and achieves project execution as per schedule. Conversely, the outlook may be revised to 'Negative' in case of further delay in execution of project leading to cost and time overrun. The delay in execution can lead to liquidity pressure and will impart a negative bias to the rating.

About the project:

Arihant Realtors is presently executing a project 'F-residencies'. 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. 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 completed the construction on 31/07/2019 while C D and E wings are yet to commence. The project is financed by promoter's contribution of Rs.130.00 crore, customer advances of Rs.202.42 crore and project loan of Rs.180.00 crore.

Charmee enterprises is executing the 'Florante' project. The project is a re-development project under the slum rehabilitation scheme located in Andheri East. The land area is 34645.26 Sq.ft and the saleable area is 74178 sq. ft. The project cost is Rs. 147.58 crore. The project comprises a rehabilitation building of 14 floors and two sale building. the project has sold 14134 sq.ft (19%) till June 30, 2019. The project is registered with RERA with Registration no. P51800008290 and completion date as 31/12/2021. The project is financed by promoter's contribution of Rs. 54 crore, customer advances of Rs. 54 crore and project loan of Rs. 40.0 crore.

KMC Developers is presently executing the project 'KMC'. The project is a re-development project under the slum rehabilitation scheme located in Borivali East. The land area is 34135 Sq. Ft. and the saleable area is 224000 sq.ft. The project cost is Rs. 363.20 crore. The project comprises a rehabilitation building of 14 floors and a sale building with 4 wings. The project is yet to be registered with RERA. The project is financed by promoter's contribution of Rs. 42.00 crore, customer advances of Rs. 251.20 crore and project loan of Rs. 70.00 crore.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	18.88	73.09	80.49
EBITDA	Rs. Cr.	0.57	4.23	3.31
PAT	Rs. Cr.	0.24	4.23	1.83
EBITDA Margin	(%)	3.02	5.78	4.11
PAT Margin	(%)	1.29	5.78	2.28
ROCE	(%)	0.22	2.32	1.98
Total Debt/Tangible Net Worth	Times	8.14	9.24	7.51
PBDIT/Interest	Times	1.97	354.16	190.23
Total Debt/PBDIT	Times	430.20	46.14	39.22
Gross Current Assets (Days)	Days	8,604	1,901	1,318

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Real Estate Entities - <https://www.acuite.in/view-rating-criteria-63.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation of companies- <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
29-Aug-2018	Term loan	Long Term	180.00	ACUITE BBB-/Stable (Assigned)
	Proposed Term Loan	Long Term	15.00	ACUITE BBB-/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	180.00	ACUITE BB+/Stable (Downgraded from Acuite BBB-/Stable)
Proposed Term Loans	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB+/Stable (Downgraded from Acuite BBB-/Stable)

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