

Press Release

Bengal Shrachi Housing Development Limited

April 17, 2020



Rating Downgraded

Total Bank Facilities Rated*	Rs.70.00 Cr.
Long Term Rating	ACUITE BB+/Stable (Downgraded)

* Refer Annexure for details

Rating Rationale

Acuité 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 the Rs.70.00 crore bank facilities of BENGAL SHRACHI HOUSING DEVELOPMENT LIMITED (BSHDL). The outlook is '**Stable**'.

The revision in rating is on account of slower traction in sales in the past projects mainly due to cancellation of bookings, which has also led to high unsold inventory. The unsold inventory majorly consists of the residential apartments launched in FY 2013-14 from the project Greenwood Nest and residential apartments launched in FY 2014-2015 from the project Dakshinaty. Further, Acuité has noted the recent slowdown in the real estate sector which highlights the diminishing demand and shortage of labour with challenges of raising funds from external sources. However, the rating also factors the customer advances uses to pre-pay the obligations. The company has repayment obligation to the tune of ~Rs.50 Cr till September 2019. Acuité believes the company's dependence on the sales traction leading to timely cash inflows will continue to remain high for timely repayment of these loans.

Bengal Shrachi is floated by the Shrachi Group in 1997 with the incorporation of Bengal Shrachi Housing Development Limited (BSHDL), a joint sector enterprise of the West Bengal Housing Board (WBHB) in 1997. The objective of BSHDL was to supplement the efforts of the West Bengal Government to meet the housing needs in the State.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of BSHDL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management and established operational track record**

BSHDL, incorporated in 1997, by the promoters, Mr. Ravi Todi and Mr. Rahul Todi of Shrachi Group who have an overall industrial experience of over two decades. The company has long track record of more than two decades. During the last two decades, BSHDL has undertaken both residential and commercial projects in West Bengal namely Greenwood Nook, Greenwood Park, Greenwood Park extension, Greenwood Sonata and Greenwood Elements, and three commercial projects –Junction Mall in Durgapur, Block by Block in New-Town and Synthesis Business Park at Rajarhat. The projects have been successfully completed and have demonstrated satisfactory sales and booking track record.

Acuité believes that the promoters' extensive experience and brand presence will continue to support the business risk profile over long term.

- Association with West Bengal Housing Board (WBHB)**

BSHDL draws comfort from the association of West Bengal Housing Board where WBHB is extending help for obtaining land and other issues relating to execution like clearance, permissions, sanctions etc. whereas Shrachi Developers will be responsible for the overall construction activity including monitoring and supervision of the entire construction activities. Further, the favourable location of the majority of the past and current project undertaken being in close proximity to the Information Technology hub of Kolkata. Acuité believes the association of BSHDL with the WBHB for operational exercises will remain a key rating sensitivity factor.

Weaknesses

• Poor traction in salability and implementation risk

The project Greenwood Nest is in implementation stage. The total cost of project stood at Rs.179.47 Cr, of which Rs.84.83 Cr (47 per cent) is already incurred as on September 2019 as against 32 per cent in the previous year. The balance of Rs 94.64 Cr is expected to be completed by December 2021. The total saleable area is 539,717 sq. ft of which total area sold stood at 338,100 sq. ft (63 per cent) as on September 2019 as against 60.60 percent as on May 2018 (sold area of 327325 sq. ft). However, the customer advances stood at Rs.68.06 Cr till September 2019 compared to Rs.30.44 Cr till May, 2018, which has also helped the company prepay its debt obligations. Going forward, the company is likely to receive ~Rs.69.66 Cr from customers which is expected to be utilized for construction purpose and for repayment of its financial obligations. The total number of apartments in this project are 491 of which 265 have sold until September 2019 (284 till May 2018), this was majorly due to the cancellation of bookings by the customers. This also led to unsold inventory of apartments which stood at Rs.275.65 Cr as on March 2019, against Rs.268.80 Cr as on March, 2018. Acuité believes the timely completion of project and receipt of the customer advance will be a key rating sensitivity factor.

• Growing concerns associated to 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. Cyclical in the real estate sector could result in fluctuations in cash inflow and volatility in sales. In contrast, cash outflow, such as for debt servicing, is relatively fixed. The residential real estate sector has remained constrained by subdued demand and bearish consumer sentiment over the past few years. Currently, the real estate sector is under stress on account of large amounts of unsold inventory and high borrowing costs due to lack of demand and labour. The sector has been facing liquidity crunch since the financial defaults in 2018, leading to a pile up of un-sold apartments. That coupled with an economic slowdown and stricter housing law has stalled many housing projects. Therefore, any decline in demand could adversely impact sales velocity and collections and, thus, weaken the financial risk profile.

Rating Sensitivities

- Timely implementation of projects, receipt of customer advances and traction in the sale of apartments
- Sufficient cash accruals to meet the repayment obligations

Material Covenants

None

Liquidity: Stretched

The company has stretched liquidity marked by weak net cash accruals to its maturing debt obligations. The company had reported negative net cash accruals of Rs.9.59 Cr in FY2019, while its maturing debt obligations were in the range of Rs.0.92 Cr over the same period. However, the company was able to meet its obligations by way of customer advances it had received. The same was also partly used for prepaying its obligations. The company's current ratio stood at 2.16 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain weak over the medium term on account of the cash accruals against debt repayments over the medium term however partly mitigated by the receipt of customer advances.

Outlook: Stable

Acuité believes the company will maintain its business risk profile in the medium term on the back of experienced management. The outlook may be revised to 'Positive' if the company generates steady cash flows as per anticipated customer advances from the bookings. Conversely, the outlook may be revised to 'Negative' in case there is any delay in execution of project or slower-than-expected sales traction leading to mismatch in cash flows.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	21.47	22.66
PAT	Rs. Cr.	(9.72)	(12.78)
PAT Margin	(%)	(45.25)	(56.40)
Total Debt/Tangible Net Worth	Times	(8.48)	(13.79)
PBDIT/Interest	Times	0.08	(0.83)

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

None

Any other information

None

Applicable Criteria

- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.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
25-Nov-2019	Term Loans	Long Term	70.00	ACUITE BBB-(Indicative)
03-Sept-2018	Term Loans	Long Term	70.00	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 Loans	06-Nov-2015	Not Applicable	31-Dec-2021	70.00	ACUITE BB+/Stable (Downgraded)

Contacts

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About Acuité Ratings & Research:

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