

Press Release

Sai Radha Developers

March 23, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.16.00 Cr
Long Term Rating	ACUITE BB/Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.16.00 Cr bank facilities of Sai Radha Developers (SRD). The outlook is 'Stable'.

About the company

Established in 1996, Sai Radha Developers (SRD) is a Karnataka-based real estate firm, promoted by Mr. Manohar shetty. It is into development of real estate projects in and around Udupi and Manipal in Karnataka. The firm has completed around 16 residential and 4 commercial projects as on date and developed around 18,94,130 square feet (sq.ft.) The firm is developing 1 residential project presently in the name of 'Sai Radha Prakriti' with total saleable area of 1.15 lakh square feet (sq.ft.) to construct 119 flats, which includes 2 and 3-bhk flats. The total cost of the projects is Rs.25.76 Cr.

The rating reaffirmation on the bank facilities of SRD factors in its established track record of operations, experienced management and low funding and implementation risk for its on-going project 'Sai Radha Prakriti'. These rating strengths are partially offset by its significant geographical concentration risk, inherent cyclicity in real estate sector and moderate impact of Covid-19.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SRD to arrive at the rating

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

The firm is promoted by Mr. Manohar Shetty, who is having an extensive experience of more than two decades in the real estate sector. The experience of promoter has helped the firm in successfully completing 20 projects developing around 18,94,130 square feet (sq.ft.) since establishment. The firm is developing 1 residential project presently in the name of 'Sai Radha Prakriti' with total saleable area of 1.15 lakh square foot (sq.ft.) to construct 119 flats, which includes 2 and 3-bhk flats. The total cost of the projects is Rs.25.76 Cr. The project launched in August 2019. Acuite believes that the promoter's experience in the real estate industry is expected to support in successful sale of the units and timely completion of the project.

- **Low funding; yet moderate implementation and demand risk for 'Sai Radha Prakriti' project**

Sai Radha Prakriti project was launched in August 2019. The funding means to this project is through promoters' contribution of Rs.3.10 Cr, Bank debt of Rs.11.00 Cr and customer advances of Rs.11.66 Cr. Out of the total project cost, Rs.11.19 Cr has been incurred till December 2020, i.e. 43 percent. The bank funding of Rs.11.00 Cr (43 percent of the total project funding) has also been sanctioned and disbursed; outstanding debt as on December 2020 stood at Rs.5.44 Cr. The promoters have infused Rs.1.91 Cr out of Rs.3.10 Cr. out of 29 flats booked; the firm has received Rs.3.84 Cr of customer advances till December 2020. Due to the impact of Covid-19, the real estate sector has seen a sudden downfall with respect to decline in demand and prices. The same is also seen in the sale of flats. Out of 29 flats, 25 flats were sold till June 2020 and due to Covid-19 impact, the firm has sold only 4 flats from July 2020-December 2020. From Q4 of FY2021, the industry has picked up and also witnessed by sale of 5 flats in January 2021 and February 2021. This signifies the low funding risk yet moderate implementation and demand risk. Acuite believes that adequate funds and customer advances in

place provides a larger scope of financial flexibility and exhibits moderate execution risks and low funding risks. Also timely completion of projects would be a key rating sensitivity factor.

Weaknesses

- **High funding and implementation risk for upcoming projects**

The firm is planning to start 4 new residential projects; of which 2 are planned to start in FY2022 and 2 in FY2023. The projects are yet to commence and the funding for the projects is expected to be 50 percent through bank debt, 15 percent through promoters' funds, and 35 percent through customer advances. The bank loan is yet to be tied up, which results in high funding and implementation risk.

- **Significant geographical concentration risk**

Out of the total executed projects by the firm; 90 percent of the projects are executed in and around Udipi region. The ongoing project and 4 upcoming projects are too located in Udipi region; which depicts significant geographical concentration risk. Acuite believes that the firm will remain exposed to significant geographical concentration risk until new projects are executed in diversified region and healthy flow of customer advances flow in.

- **Inherent cyclicity of 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. The risks associated with the real estate industry are cyclical in nature of business (drop in property prices) and interest rate risk, among others, which could affect the operations. The current market scenario of COVID-19 would impact the completion of ongoing projects and the pandemic has further exacerbated the situation, with sales and collections witnessing moderation in Q1FY2021. Though the performance is likely to improve gradually, sales and collections are expected to remain subdued in FY2021. Also, the project being in the early phase of execution exposes the firm to inherent cyclicity. Real estate sales have been subdued in recent times because of exposure to investor-driven markets and the impact of RERA, sales velocity remains critical for the new project. Acuite believes that the firm will remain exposed to the inherent cyclicity in the real estate sector.

Rating Sensitivities

- Timely completion of existing project
- Lower-than-expected sales
- Higher than expected dependence on external debt leading to deterioration in financial risk profile
- Repayment of its loan obligation while maintaining its net cash accruals

Liquidity Position: Adequate

The liquidity position of the firm has remained adequate. The firm has received Rs.1.91 Cr through promoters' contribution, Rs.5.44 Cr through external borrowings and Rs.3.84 Cr through customer advances towards on-going project 'Sai Radha Prakriti'. Debt Service Coverage Ratio for the on-going project is expected to be at 3.40 times throughout the tenure under which the project is to be executed. Acuite believes that timely receipt of advances from sold units and proposed units for sale will remain critical elements for maintaining adequate liquidity.

Outlook: Stable

Acuite believes that the SRD will maintain 'Stable' business risk profile over the medium term on the back of experienced promoters in the real estate industry. The outlook may be revised to 'Positive' in case of higher-than-expected advances from customers resulting in adequate cash flows for early completion of the project and prepaying the debt. Conversely, the outlook may be revised to 'Negative' in case of any undue delay in completion of the project, or less-than-expected bookings and advance, leading to stretch on its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	6.14	16.51
PAT	Rs. Cr.	(3.41)	0.08
PAT Margin	(%)	(55.58)	0.47
Total Debt/Tangible Net Worth	Times	2.12	2.06
PBDIT/Interest	Times	0.17	1.04

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

None

Any Material Covenants:

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Real estate Sector Entities - <https://www.acuite.in/view-rating-criteria-63.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
27-Dec-2019	Term Loan	Long Term	16.00	ACUITE BB/Stable (Reaffirmed)
08-Nov-2019	Term Loan	Long Term	10.90	ACUITE BB Issuer not Cooperating
05-Sept-2018	Term Loan	Long Term	10.90	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	Sept 2016	12.15	Sept 2027	5.00	ACUITE BB/Stable (Reaffirmed)
Term Loan	Feb 2020	12.43	Feb 2025	11.00	ACUITE BB/Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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