

Press Release

KVR Prime Constructions Private Limited

October 04, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.10.00 Cr.
Long Term Rating	ACUITE B+/Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long term rating of '**ACUITE B+**' (read as **ACUITE B Plus**) to the Rs.10.00 crore bank facilities of KVR Prime Constructions Private Limited (KVR Prime). The outlook is '**Stable**'.

KVR Prime was incorporated in September 2013 and is promoted by Mr. K Venkatetwara Rao having around 35 years of experience in real estate industry. The company undertakes real estate development projects for residential and commercial purposes.

KVR Prime is currently executing a residential real estate project named 'Prime Hill Crest' near Vijayawada with a total built-up area of about 1.61 lakh square foot (sq.ft.). It is offering luxury apartments and commercial spaces comprising of 61 units of which 37 units aggregating to 48354 sq.ft. of residential space (mix of 2 and 3 bhk) and 49271 sq.ft. of commercial space totaling to 97625 as developer share. The project cost is about Rs.30.50 crore proposed to be funded through promoter's margin of about Rs.5.80 crore, project term loan of Rs.10.00 crore and advance from customers of Rs.14.70 crore. The project is likely to be ready for possession by around July, 2019.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of KVR Prime to arrive at this rating.

Key Rating Drivers:

Strengths:

Experience of promoter in construction of residential projects

The promoter has around three decades of experience in construction and development of properties. The promoter has completed multiple residential projects in Hyderabad, Vijayawada and Vizag over the past two decades. The promoter's group has developed a total constructed area of over 1.7 million sq.ft. till date under various firms including Prime Constructions. Acuité 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.

Location advantage of the project

The project is situated at Vaddeswaram Village adjacent to Vijayawada-Guntur highway and is well connected with both Guntur and Vijayawada, two prominent cities in Andhra Pradesh (AP). Amaravati, the new capital region of AP is being developed between Vijayawada and Guntur and this project is 6km away from the capital region.

Moderate progress in the construction and funding risk

The total project cost of Rs.30.50 crore is funded by Rs.10.00 crore of term loan, Rs.5.80 crore promoter funds and remaining Rs.14.70 crore through customer advances. The company has incurred about Rs.9.42 crore on the project till August 2018; funded out of promoter's and bank loan of Rs.4.2 crore and about Rs.1.0 crores by way of advances. The project achieved about 40 percent of physical progress and management is expecting the project to be delivered by June or July 2019. As the company is awaiting for certain approvals, it has not started the bookings on aggressive note; however, as the dependency on customer advances are about 48 percent, and the management has not started aggressive selling, any delay in bookings or lower-than-expected customer advances will hamper the timely completion of the project and the realisations on sale of the flats / commercial space.

Weaknesses:

Inherent cyclicity in 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 real estate sector is vulnerable to regulatory changes as observed in the past one year with introduction of Goods and Services Tax (GST) and Real Estate Regulatory Authority (RERA) Act which have affected the sales velocity and collections of many incumbents to an extent. Further, the compliance costs for the company due to GST and RERA are expected to increase. The company remains exposed to inherent cyclicity in the residential real estate industry. The risks associated with real estate industry are cyclical in nature in terms of drop in property prices partly attributed to piling up of high inventory of commercial and residential, economic downturns, building material availability issues, among others and Acuite believes that the company is exposed to the risk associated with this industry.

Outlook: Stable

Acuite believes that KVR Prime will maintain 'Stable' business risk profile over the medium term on the back of experienced promoter and long operational track record in the real estate industry. The outlook may be revised to 'Positive' in case of earlier-than-expected sale of the constructed area, and advances from customers resulting in adequate cash flows for early completion of the project. Conversely, the outlook may be revised to 'Negative' in case of less-than-expected bookings or lower-than-expected advances from the bookings resulting in delay in project completion and stretch in the liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)
Operating Income	Rs. Cr.	9.49	0.44
EBITDA	Rs. Cr.	2.73	0.74
PAT	Rs. Cr.	0.67	0.03
EBITDA Margin	(%)	28.79	170.69
PAT Margin	(%)	7.04	7.02
ROCE	(%)	16.68	8.63
Total Debt/Tangible Net Worth	Times	28.00	355.17
PBDIT/Interest	Times	1.33	1.07
Total Debt/PBDIT	Times	7.06	17.01
Gross Current Assets (Days)	Days	939	13,495

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-17.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>

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
Project Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE B+/ Stable (Assigned)

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About Acuite Ratings & Research:

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