

Press Release

Adwalpalkar Constructions And Resorts Private Limited

19 June, 2020

Rating Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs. 58.00 Cr. (Enhanced from Rs.48.00 crore)
Long Term Rating	ACUITE BB/Stable (Reaffirmed & Assigned)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.48.00 crore of bank facilities of Adwalpalkar Construction & Resort Private Limited. Acuite has also assigned the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) to the Rs.10.00 crore bank facility of Adwalpalkar Construction & Resort Private Limited. The outlook is '**Stable**'.

Incorporated in 2010 at Goa, ACPL was promoted by Mr. Mahesh Adwalpalkar, Mrs. Jyoti Adwalpalkar and Mr. Shripad Adwalpalkar. The company is engaged in the construction of commercial and residential properties along with running a chain of hotels with the brand name of 'Sinq' in Goa. ACPL currently has seven ongoing projects with a total saleable area of ~381473 square feet.

Analytical Approach:

Acuite has considered standalone business and financial risk profile of ACRPL while arriving at the rating.

Key Rating Drivers:

Strengths

Established track record of operation and experienced management

ACRPL has been present for a decade in the real estate and hospitality sector. ACRPL was incorporated in 2010 for the construction of residential and commercial properties in Goa. In 2012, the company entered into the hospitality segment. ACRPL has successfully delivered 7 projects till March 31, 2020 and presently, it has 7 ongoing projects at different stages of construction. ACRPL's promoters have been associated with the real estate sector since 1995 through their group partnership firm- M/s Adwalpalkar Constructions (non-operational). Further, ACRPL operates a reputed hotel chain in Goa with the brand name of 'Sinq'. Acuite believes that ACRPL's established track record of successful project execution and brand presence will continue to support its business risk profile over near to medium term.

Comfortable financial risk profile

The comfortable financial risk profile of the company is marked by moderate net worth, high gearing and healthy debt protection metrics. The net worth of the company stood healthy at Rs.35.37 crore in FY2020 (Prov.) as compared to Rs.26.58 crore in FY2019. This improvement in Networth is mainly due to retention of current year profit. The gearing of the company stood high at 2.42 times as on March 31, 2020 (Prov.) when compared to 2.39 times as on March 31, 2019. The total debt of Rs 85.71 crore in FY2020 consists of long term loan of Rs.45.88 crore, short term loan of Rs.37.09 crore, and unsecured loan from promoters of Rs.2.74 crore. Interest coverage ratio (ICR) is comfortable and stood at 2.74 times in FY2020 (Prov.) as against 4.19 times in FY 2019. The debt service coverage ratio also stood comfortable at 2.27 times in FY2020 (Prov.) as against of 3.62 times in FY2019. The net cash accruals to total debt (NCA/TD) stood moderate at 0.09 times in FY2020 (Prov.) as compared to 0.19 times in the previous year. Going forward, Acuite believes the financial risk profile of the company will be comfortable based on the steady cash flow in form of regular advance receivables from the customers and no planning for debt funded real estate projects near medium term.

Weaknesses

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. Cyclicalities 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. This partially offset as the projects are located well-connected areas of Goa. The company was completely shut down for entire lock-down period and resume their real estate business from the beginning of June 2020. Moreover, the company is still unable to operate its hotels, which severely affects their revenue from hospitality segments as well. However, the company has already started their real estate segments from 1st of June 2020 which partially offset huge impact in the first half of the financial year 2020-21. Construction sites have already been into operation along with other administrative works.

Moderate stage of project completion

The company is developing 7 commercial projects for sale along with a hotel with a total sealable area of ~381473 square feet in Goa. The company has completed ~49 percent of the total construction till 31st Mar 2020 and has been able to sell ~55 per cent of the total sealable area. All projects are expected to be completed by March 2024. The traction in receipt of customer advances is dependent on the project completion. The company's ability to execute projects as per schedule is highly dependent on timely receipt of regulatory approvals along with customer advances. However, Acuite believes the schedule receipt of customer advances will be affected due to the nationwide lockdown from the end of March 2020 to May 2020, leading to delays in completion of ongoing projects. Acuite also believes that the company's ability to execute the projects as per schedule and achieve sales will be the key rating sensitivity factor.

Rating Sensitivity

- Timely implementation of projects, receipt of customer advances and traction in sale of residential and commercial projects.
- Schedule receipt of customer advances.

Material Covenant

None

Liquidity Position: Adequate

ACRPL's liquidity position remains adequate in the backdrop of repayment of debt obligations accentuated by moderate bookings of its flats. However, the growing challenges and stress in the real estate industry on account of sluggish sales and increase in unsold inventory is a concern. Major portion of the company's projects will be funded through customer advances which will depend on the level of completion and demand in the industry. Adequate timely customer advances along with requisite promoter's capital infusion will ease the liquidity pressure of the company. The adequate liquidity position of the company also reflects on healthy cash accruals of Rs. 11.84 crore in FY2019 as against of Rs.7.26 crore of yearly debt obligation.

Outlook: Stable

Acuite believes that ACRPL will maintain a 'Stable' outlook over medium term on account of its established track record in the industry. 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 Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	92.22	133.60
PAT	Rs. Cr.	7.29	8.11
PAT Margin	(%)	7.91	6.07
Total Debt/Tangible Net Worth	Times	2.39	2.94
PBDIT/Interest	Times	4.19	6.88

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>

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
29-Mar-2019	Dropline Overdraft	Long Term	32.05	ACUITE BB/Stable (Reaffirmed)
	Term Loan	Long Term	4.45	ACUITE BB/Stable (Reaffirmed)
	Overdraft	Long Term	6.57	ACUITE BB/Stable (Assigned)
	Proposed Dropline Overdraft	Long Term	2.50	ACUITE BB/Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.43	ACUITE A4+ (Assigned)
08-Oct-2018	Dropline Overdraft	Long Term	32.05	ACUITE BB/Stable (Assigned)
	Proposed Dropline Overdraft	Long Term	2.50	ACUITE BB/Stable (Assigned)
	Term Loan	Long Term	4.45	ACUITE BB/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Dropline Overdraft I	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB/Stable (Reaffirmed)
Dropline Overdraft II	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	March 2025	2.48	ACUITE BB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	March 2024	13.08	ACUITE BB/Stable (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	0.98	ACUITE BB/Stable (Assigned)

Overdraft	Not Applicable	Not Applicable	Not Applicable	11.07	ACUITE BB/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	June 2021	0.96	ACUITE BB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	January 2034	6.53	ACUITE BB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	September 2031	1.00	ACUITE BB/Stable (Assigned)
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.90	ACUITE BB/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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