

Press Release

M S Ramayya Constructions Private Limited

December 31, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 19.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) to the Rs. 19.00 crore bank facilities of M S RAMAYYA CONSTRUCTIONS PRIVATE LIMITED (MSRC). The outlook is '**Stable**'.

MSRC is a Visakhapatnam based company incorporated in 2004 by Mr. Mogga Seetaramayya along with other family members. The company was established to develop real-estate activities involving construction of residential apartments and commercial complexes in various parts of Vishakhapatnam and its surroundings. It has diversified into shopping mall business in 2015 which contributed to around 60 percent of its revenues in FY18 and FY17. The Directors of the company have aggregate handled more than 1.70 million sq. ft. of real estate development in Visakhapatnam and its surroundings in the past 15 years.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record and reputation of MSRC**

MSRC has an established track record and reputation in the real-estate sector of Visakhapatnam, especially in the residential space development segment. The promoters have around two decades of experience in construction and development of properties in their professional capacities. The experience has helped the company in successful completion of 18 ventures covering 1.7 million square feet (MSF) of built up space in commercial and residential segment in and around Vishakhapatnam city. The company is currently executing a large residential real estate project named 'Sri Yaduvamsi Ananda Dhamam' at Sujatha Nagar area in Chinnamushidiwada (Visakhapatnam) with a total saleable area of 702515 sq. ft. The construction started in January 2018 and management expects the projects to be ready for handover by January 2021. The project achieved about 10 percent of physical progress. Acuité believes that the promoters' experience in the real estate industry is expected to support in successful sale of the units, and timely completion of the project.

Weaknesses

- **Moderate funding risk**

The total project cost is Rs.214.21 crore to be funded by Rs.98.00 crore (45 percent of project cost) debt, Rs.51.50 crore (25 percent of project cost) equity, and Rs.64.71 crore (30 percent of project cost) customer advances. The company has incurred about Rs.63.00 crore on the project till November 2018; funded out of promoters' fund of Rs.38.00 crore and bank loan of Rs.25.00 crore. The company has successfully completed the financial closure and have drawn about Rs.25.00 crore and the promoters have brought in Rs.38 crore (~ 75 percent of their contribution) as of November, 2018. With the funds in place, the physical construction of the project is above 10 percent. The company will be using bank term loan of Rs.73.00 crore and promoter's contribution of Rs13.50 crore, besides the dependency on customer advances at the end of the project. The management believes to start the commercial sales of the project from Q3FY2019 to realise the premium besides lower reliance on customer advances for completion of the project. Acuité believes that an adequate fund in place and lower reliance on the customer advances leaves a larger scope for financial flexibility and charging premium on commencement of sale of the space.

- **Inherent cyclical 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 has 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 cyclical 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 Acuité believes that the company is exposed to the risk associated with this industry.

Outlook: Stable

Acuité believes that MSRC 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 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	52.59	40.97	22.48
EBITDA	Rs. Cr.	10.22	6.42	3.94
PAT	Rs. Cr.	2.68	1.46	0.39
EBITDA Margin (%)	(%)	19.44	15.68	17.54
PAT Margin (%)	(%)	5.10	3.56	1.76
ROCE (%)	(%)	11.70	9.03	8.37
Total Debt/Tangible Net Worth	Times	1.63	4.67	4.06
PBDIT/Interest	Times	1.81	1.60	1.36
Total Debt/PBDIT	Times	5.05	8.47	10.64
Gross Current Assets (Days)	Days	567	494	826

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Real Estate Entities - <https://www.acuite.in/view-rating-criteria-41.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
Overdraft	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB / Stable

Contacts

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About Acuité Ratings & Research:

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