

Press Release

Yalavarthi Kanaka Durga

D-U-N-S® Number: 67-548-4832

March 28, 2019

Rating Assigned



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

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE BB**) on the Rs. 10.00 crore bank facilities of YALAVARTHI KANAKA DURGA. The outlook is '**Stable**'.

Yalavarthi Kanaka Durga (YKD) is an Andhra Pradesh based Proprietorship firm established in the year 2009, promoted by Ms. Y Kanaka Durga. It is engaged in construction of residential flats. Currently, the firm is developing a residential project of 2.72 lakh sq.ft at Gudivada, Andhra Pradesh.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of YKD to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

The promoters of the firm, Ms. Y Kanaka Durga and their family members possess more than a decade experience in the real estate sector. The promoter family has developed around 4.20 lakhs sq. ft of commercial space and residential apartment units over the last one decade in and around Gudivada (Andhra Pradesh). The firm has started a new residential project 'Ganesh Grand' at Gudivada; the project comprises construction of 225 residential flats (two and three bed room units) with total salable area of 2,72,000 sq. ft. at a total project cost of Rs.30.44 crore. The project started in January 2018, and expected to be completed by January 2020. Acuite believes that the firm enjoys promoters' experience in timely completion of the project

• Moderate funding risk

The construction of 225 residential flats (with saleable area of 2.72 lakh sq.ft.) is expected to cost about Rs.30.44 crore; the same is proposed to be funded through promoters equity of Rs.3.18 crore (11%), debt of Rs.9.70 crore (32%) and advance from customers of Rs.8.00 crore (26%) and Rs.9.56 crore (31%) through unsecured loans. As of February 2019, the promoters have infused equity of Rs.3.18 crore, and drawn about Rs.5.25 crore from bank, besides advances from customers and unsecured loan of about Rs.1.20 crore. Though the bookings are moderate, however the advances received are at modest level owing to the stage of the civil structure at about 60 -70 per cent. Major collections are expected during H1FY2020, while the project construction inches towards moderate completion; the project is expected to be ready for handover by around last quarter of FY2020. The firm maintains an escrow account with the banks for credit of Rs.0.05 crore for every flat sold; which ensures dedicated utilisation of funds for the project. Acuite believes that undrawn balances from the banks, promoter's presence and financial flexibility, improving demand for the residential projects in and around Gudivada is expected to support in timely completion of the project.

Weaknesses

• Inherent cyclicality in Real Estate sector

The real estate industry in India is highly fragmented with most of the real estate developers having a city 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 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 space, economic downturns and building material availability issues, among others. Acuite believes that the firm is exposed to the risk associated with this industry.

Liquidity Position

Liquidity of the firm is moderate marked by sanction of bank lines and promoter's financial flexibility to infuse the funds. It has received sanction of term loan of Rs.9.7 crore, against which it has drawn about Rs.5.25 crore till February, 2019. Further, the promoters have brought in Rs.3.18 crore and Rs.1.20 crore by way of promoters' contribution and unsecured loan. The repayment of term loan to start from November 2020 payable over a period of 36 monthly installments is expected to support the liquidity. With the ESCROW account in place, the liquidity of the firm is expected to be moderate over the medium term.

Outlook: Stable

Acuite believes that YKD will maintain 'Stable' business risk profile over the medium term on the back of experienced promoter 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.	1.03	2.09	1.07
EBITDA	Rs. Cr.	0.33	0.30	0.29
PAT	Rs. Cr.	0.06	0.07	0.06
EBITDA Margin	(%)	32.23	14.36	27.10
PAT Margin	(%)	6.24	3.53	5.42
ROCE	(%)	13.75	13.33	26.74
Total Debt/Tangible Net Worth	Times	0.00	0.00	0.00
PBDIT/Interest	Times	1.24	1.32	1.25
Total Debt/PBDIT	Times	7.35	7.87	7.48
Gross Current Assets (Days)	Days	414	100	183

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>

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
Term loans	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB / Stable

Contacts

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About Acuité Ratings & Research:

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