

Press Release

AGNI ESTATES AND FOUNDATIONS PRIVATE LIMITED

May 17, 2019

Rating Assigned & Reaffirmed



Total Bank Facilities Rated*	Rs. 83.50 Cr. (Enhanced from Rs.8.50 crore)
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.14.50 crore bank facilities of AGNI ESTATES AND FOUNDATIONS PRIVATE LIMITED (AEFPL). The outlook is '**Stable**'.

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.69.00 crore bank facilities of AGNI ESTATES AND FOUNDATIONS PRIVATE LIMITED (AEFPL). The outlook is '**Stable**'.

AEFPL was incorporated in 1992 as the flagship company of Agni Group. The company is engaged as a real estate developer in Chennai. It mainly builds for middle income group and low income group of people. It has completed 23 projects of real estate development comprising of residential flats and villas. AEFPL also earns revenue by leasing out properties. The company currently has 4 ongoing real estate projects, namely Pelician Heights, Balaraga, Maple and Shree Lakshmi.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced Management and established player in affordable housing**

AEFPL has been operating as a real estate developer for more than 25 years majorly building for middle income and low income group buyers in the affordable housing segment. AEFPL has successfully completed 23 projects since incorporation. The company has based all their projects in and around Chennai which makes them updated about the conditions of the real estate market in the city. Currently the company has 4 ongoing residential projects under construction and 3 commercial properties given out on lease. Acuite believes the experience of promoters and their long track of operations has helped AEFPL become an established player for affordable housing in Chennai and will further help the business risk profile of the company in the medium term.

- **Steady lease rental revenue from reputed MNC clients**

AEFPL generates a steady flow of revenue from the rentals of leased out properties. Majority of the debt taken by the company is against this flow of revenue. This makes the stability of clients and continuity in revenue from rentals important in order to service the debt obligations. The location of the leased properties at prime localities in central Chennai will help in ensuring that the properties will be less likely to be idle and not generate revenue in rentals. Stability of clients is further supported by having a strong clientele of reputed MNCs. AEFPL has reputed clients like MT Educare, Pfizer Limited, Heinz India Private Limited and Indiabulls Housing Finance Limited as their lessee for a tenure of 6 - 9 years. Such strong list of clientele also provides an outlook for the medium term with respect to continuity in terms of steady flow of revenue from rentals.

- **Limited borrowings in construction finance**

AEFPL has minor exposure to outside debt with respect to construction financing of their projects. Out of the current ongoing 4 projects the company has financed 3 projects (Pelician Heights Maple and Shree Lakshmi) through capital infusion by promoters and customer advances. Only a part of the fourth project (Balaraga) has been financed through external debt. The ability of AEFPL to execute majority of the project financing through promoter funding and customer advances signifies that the company is not over leveraged with respect to external borrowings.

Weaknesses

• Risk of inventory build-up amidst tepid real estate market

AEFPL faces a risk of inventory build-up in 2 of the 4 ongoing real estate projects Pelican Heights and Balaraga. 21 out of the 85 flats forming the share of AEFPL remain unsold at Pelican Heights project. Further, 91 out of the 131 flats forming the share of AEFPL remain unsold at Balaraga project. Since AEFPL has been less reliant on assistance from external borrowings with respect to real estate development projects, any volatility in terms of revenue inflow caused by a drop in sale of flats due to a tepid real estate market will adversely affect the project financing for future projects. However, the company has been in the real estate market to develop for low income and middle income groups which is likely to show consistent growth in demand due to mass affordability. Further initiatives by government to encourage housing for all are likely to introduce better policy framework for low income and middle income group developers. Acuite expects AEFPL to continue developing in the affordable housing segment to avoid the risk of inventory build-up in the medium future.

Liquidity Position

AEFPL's liquidity position remains adequate in the backdrop of low repayment of debt obligations. The company is less reliant on external borrowings and project financing activities are done through promoter funding and customer advances. The company has maintained average debt equity levels of 1.81 times through the 3 years ending March 2018. The company is not looking to raise further debt to begin new projects. Less reliance on external borrowings is expected to keep the liquidity of the company at adequate levels for the near to medium future.

Outlook: Stable

Acuite believes the company will maintain its business risk profile in the medium term on the back of experienced management. The outlook may be revised to 'Positive' if the company generates steady cash flows as per anticipated customer advances from the bookings. Conversely, the outlook may be revised to 'Negative' in case there is any delay in executing the project or the collections from the bookings gets delayed, thereby creating pressure on liquidity.

About the Project

AEFPL has 4 ongoing real estate development projects, namely Pelican Heights (Pallavaram, Chennai), Balaraga (Athipet, Chennai), Maple (Perumbakkan, Chennai) and Shree Lakshmi (Mudichur, Chennai).

Pelican Heights is a residential apartment project developed as a joint venture between AEFPL, Kanniappan and Shivaji Roa. AEFPL holds 61% share in this joint venture. Construction began in September 2016 and is expected to be completed by July 2019. The project is expected to be financed from equity brought in by the promoters and customer advances. The total built up area of the project is 1,65,194 sq. ft. 138 units will be built out of which AEFPL will hold a share of 85 units. 64 units have been sold up to February, 2019.

Balaraga is a residential apartment project developed as a joint venture between AEFPL, Balambal, Raghavan, Magesh and Aparna. AEFPL holds 70% share in this joint venture. Construction began in October 2014 and is expected to be completed by December 2020. The project will be financed from equity brought in by the promoters, customer advances and external debt borrowings. The total built up area of the project is 1,85,144 sq. ft. 187 units will be built out which AEFPL will hold a share of 131 units. 40 units have been sold up to February, 2019.

Maple is a residential villa project developed solely by AEFPL. Construction began in August 2014 and was expected to be completed in March 2019. The project will be financed from equity brought in by the promoters and customer advances. The total built up area of the project is 57,623 sq. ft. 29 villa units are to be built out which 27 units have been sold up to February, 2019.

Shree Lakshmi is a residential apartment project developed as a joint venture between AEFPL and Vivek. AEFPL holds 65% share in this joint venture. Construction began in September 2016 and was expected to be completed by March 2019. The project will be financed from equity brought in by the promoters and customer advances. The total built up area of the project is 32,840 sq. ft. 44 units will be built out which AEFPL will hold a share of 29 units. 28 units have been sold up to February, 2019.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	32.72	31.50	33.86
EBITDA	Rs. Cr.	10.61	6.76	6.56
PAT	Rs. Cr.	4.08	1.30	2.79
EBITDA Margin	(%)	32.42	21.46	19.39
PAT Margin	(%)	12.47	4.14	8.25
ROCE	(%)	12.77	10.12	19.48
Total Debt/Tangible Net Worth	Times	1.83	1.79	1.82
PBDIT/Interest	Times	1.46	1.28	1.50
Total Debt/PBDIT	Times	5.24	6.18	6.35
Gross Current Assets (Days)	Days	2,299	2,185	1,797

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

Not Applicable

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
02-May-2019	Overdraft	Long Term	5.00	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	3.50	ACUITE BBB-/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
Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE BBB- / Stable (Reaffirmed)
Drop line Overdraft	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE BBB- / Stable (Assigned)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	12.01	ACUITE BBB- / Stable (Assigned)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	0.02	ACUITE BBB- / Stable (Assigned)
Term Loan III	Not Applicable	Not Applicable	Not Applicable	5.91	ACUITE BBB- / Stable (Assigned)
Term Loan IV	Not Applicable	Not Applicable	Not Applicable	3.38	ACUITE BBB- / Stable (Assigned)

Term Loan V	Not Applicable	Not Applicable	Not Applicable	0.41	ACUITE BBB- / Stable (Assigned)
Term Loan VI	Not Applicable	Not Applicable	Not Applicable	14.81	ACUITE BBB- / Stable (Assigned)
Term Loan VII	Not Applicable	Not Applicable	Not Applicable	5.37	ACUITE BBB- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.07	ACUITE BBB- / Stable (Assigned)

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About Acuité Ratings & Research:

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