

Press Release

PBSR Developers Private Limited

D-U-N-S® Number: 87-378-5923

July 13, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.100.00 crore bank facilities of PBSR Developers Private Limited. The outlook is '**Stable**'.

Incorporated in 2012, PBSR is a special purpose vehicle of Patel Engineering Limited (PEL) promoted by Mr. Pravin Patel and Mr. Rupen Patel, promoters of PEL. PBSR is currently developing a residential project (Smondo Gachibowli) in Hyderabad (Telangana State) started in November 2015 with a total saleable area of 7.11 lakh square feet (sft) spread across 672 units under three towers. The total cost of the projects is Rs.417 crore and is expected to be completed by March 2022.

Analytical Approach

Acuité has taken a standalone view of the financial and business risk profile of PBSR to arrive at a rating.

Key Rating Drivers

Strengths

• Experienced management

The promoters have around four decades of experience in the construction and development of properties. Mr. Rupen Patel, Managing Director of PEL, has an experience of more than two decades in the construction industry. The company is a wholly-owned subsidiary of Patel Engineering Limited (PEL). PEL has been engaged in EPC/infrastructure development for more than six decades with a national presence and major operations spread all over India. The promoters under the group have developed 5 other residential projects with saleable area of about 2.4 million sq.ft. The promoters under PBSR have taken up a new project for the development of a residential project in Hyderabad with a saleable area of about 7.11 lakh sq.ft. The construction started in November 2015 and management expects the projects to be ready for handover as per revised DCCO of March 2022 from March 2021.

Acuité believes that the promoter's experience in the construction and real estate industry and improving demand for the residential units in Gachibowli area are expected to support in successful sale of the units, and timely completion of the project.

• Low funding risk and execution risk

The company is currently developing a project (Smondo Gachibowli) at a cost of about Rs.417.00 crore. The project is proposed to be funded out of promoter's contribution of about Rs.41.11 crore (~10 percent of project cost), bank funding of about Rs.87.48 crore (~21 percent) and customer advances of about Rs.289.15 crore (~ 69 percent). The company has successfully completed the financial closure and have drawn about Rs.70.0 crore, utilized Rs.8 crore from over-draft account and the promoters have brought in Rs.41.11 crore (~ 100 percent of their contribution) and received customers advances of Rs.220 crore (~ 76 percent of their contribution) as of March 2020. With the funds in place, the physical construction of the project is above 84 percent complete. As on March 2020, the company has sold 5.07 lac sq.ft. out of 7.11 lac sq.ft, which is 72 per cent of total space. For the next phase of work completion, the company will be using customer advances and over draft account. Acuité believes that adequate funds in place and adequate advances received from customers a larger scope for financial flexibility and charging premium for sale of the unsold space.

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-specific or region-specific presence. The risks associated with the real estate industry are cyclical in nature of business (drop in property prices) and interest rate risk, among others, which could affect the operations. The current market scenario of COVID-19 would impact the completion of ongoing projects as, project sites are shut, migration of labour back to their hometowns and unavailability of raw material. The Real Estate sector is under high stress on account of large amounts of unsold inventory and high borrowing costs. This is primarily attributable to the high residential property prices due to persistent rollover of bank debt, which has a cascading effect on the overall finance costs. Given the high degree of financial leverage, the high cost of borrowing inhibits the real estate developers' ability to significantly reduce prices to augment sales growth. PBSR cash flows in near-term are likely to be impacted on account of the outbreak of Covid-19 pandemic and associated economic uncertainties, which are likely to affect the operations, bookings and cash flows of real estate developers including the PBSR. With Covid-19 expected to disrupt operational cash flows over the near-medium term. Further, due to the Covid-19 pandemic, the work was stalled for approximately 2.5 months (April 2020 - June 2020). Consequently, the project is now scheduled to be completed by March 2022. Demand is expected to witness moderation and committed receivables from already booked sales are also expected to get impacted. However project being completed about 85% on physical progress front, about 75% units sold and which reduces the risks some extent.

Liquidity Position: Adequate

The PBSR has an adequate liquidity position marked by the moderate customer advances to its maturing debt obligations. Liquidity is supported by good saleability as well as collections in the ongoing project and external borrowing is only 21% of the project cost. The PBSR is mainly dependent on customer advances for its project funding and debt repayment. The PBSR has debt repayment obligations for its term loans in the range of Rs.20-25 crore for FY2021 and FY2022. Further, an overdraft limit of Rs.30 crore is expected to support the liquidity to meet the repayment obligations of about Rs.56 crore over a period of three years till Q3FY2023. The company is expected to continue generating healthy surplus cashflows from its unsold inventory in the near to medium term. Acuite expects moderate internal accruals, 25% unutilized bank lines to be sufficient to meet its repayment obligations as well as incremental construction costs.

Rating Sensitivities

- Realization of customer advances pending from sold inventory in time
- Lower than expected sales traction leading to increased dependence on debt
- Sharp decline in cash flow, by slackened saleability of project or delays in project execution
- Weakening of the financial risk profile due to higher-than-expected borrowing

Material Covenants:

None

Outlook: Stable

Acuite believes that the PBSR will maintain 'Stable' business risk profile over the medium term on the back of experienced promoters and long operational track record in the real estate industry. The outlook may be revised to 'Positive' in case of higher-than-expected 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 any undue delay in completion of the project, or less-than-expected bookings and advance leading to stretch on its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	4.26	0.83
PAT	Rs. Cr.	4.25	-6.88
PAT Margin	(%)	99.62	-829.84
Total Debt/Tangible Net Worth	Times	-21.61	-11.55
PBDIT/Interest	Times	0.91	0.97

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

Not Applicable

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Real Estate Entities - <https://www.acuite.in/view-rating-criteria-63.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
03-May-2019	Secured Overdraft	Long Term	30.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	70.00	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
Term loans	21-02-2018	Not Applicable	21-10-2022	70.00	ACUITE BBB- / Stable (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB- / Stable (Reaffirmed)

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About Acuite Ratings & Research:

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