

## Press Release

### PBSR Developers Private Limited

August 17, 2021



### Rating Reaffirmed

|                                     |   |
|-------------------------------------|---|
| <b>Total Bank Facilities Rated*</b> | Rs. 100.00 Cr.                                |
| <b>Long Term Rating</b>             | ACUITE BBB- / Outlook: Stable<br>(Reaffirmed) |

\* 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 (PBSR). The outlook is '**Stable**'.

The rating reaffirmation takes into the account the comfort from PEL's strong promoter profile, established track record in real estate and Infrastructure development. Patel Engineering Limited (rated ACUITE BBB-/Stable), the parent company, along with its subsidiaries has a proven track record of developing commercial, EPC/infrastructure development for more than six decades with a national presence and major operations spread all over India. The rating also takes into consideration the attractive location of the project in Gachibowli, Hyderabad, a prominent IT office hub with a well-developed social infrastructure, which enhances the marketability of the project. Further, the rating favourably factors in achievement of ~90 percent physical Progress and sale of 75 percent of total leasable area) mitigating the market risks to an extent. The Project is expected to be completed by March 2022.

The rating is partially constrained by PBSR's exposure to moderate execution risks as 10 percent of the cost is yet to be incurred. The exposure to market risk given the overall sluggishness in demand due to the Covid-19 pandemic and exposure to risks of cost/time overruns or delays in monetization of projects, may resulting in cash flow mismatches.

### About the company

Incorporated in 2012, PBSR is a special purpose vehicle of Patel Engineering Limited (PEL) promoted by Mr. Rupen Patel, promoters of PEL. PBSR is currently developing a residential project (Smondo Gachibowli) in Hyderabad (Telangana State) started in November 2015 with total saleable area of 7.07 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 rating.

### Key Rating Drivers

#### Strengths

##### • Experienced management

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. Mr. Rupen Patel, Managing Director of PEL, has an experience of more than two decades in the construction industry. The management is ably supported by a well-qualified and experienced team of professionals. The PEL has a consistent track record in executing complex domestic and international projects. PEL has completed construction of over 84 dams, 33 hydroelectric projects, and 200 km of tunneling projects. The promoters under PBSR have taken up a new project for development of a residential project in Hyderabad with a saleable area of about 7.07 lakh square feet (sft). 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 promoters' experience in the construction and real estate industry and improving demand for the residential units in Gachibowli (Hyderabad) area are expected to support in successful sale of the units, and timely completion of the project.

• **Low funding and execution risk**

The company is currently developing a project (Smondo Gachibowli) at a cost of about Rs.417.00 crore. The project is funded out of promoter's contribution of about Rs.41.29 crore (~10 percent of project cost), bank funding of about Rs.105.60 crore (~25 percent) and customer advances of about Rs. 269.90 crore (~ 65 percent). PBSR incurred a total cost of about Rs. 380 Cr (91 percent) as compared to the total project cost of ~Rs. 417 Cr. The company has successfully completed the financial closure and the promoters have brought in Rs.41.29 crore (~ 100 percent of their contribution) and received customers advances of Rs. 248.90 crore (~ 92 percent of their contribution) as of March 2021. With the funds in place, the physical construction of the project is above 91 percent complete as on March 2021. As on March 2021, The Company has sold 5.11 lakh square feet (sft). Out of 7.07 lakh square feet (sft), this is 75 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 leaves a larger scope for financial flexibility and charging premium for sale of the unsold space.

## Weaknesses

• **Single project concentration risk**

The company's cash inflows are entirely dependent on the booking level and the collection efficiency of Smondo Gachibowli project as it is the sole residential project being developed by the company currently. Hence, the company would be dependent on adequate sales and timely collections from this project for servicing its debt obligations.

• **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 risks associated with 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 company is exposed to market risks for the unsold inventory, in terms of sales velocity, pricing and timely collection, particularly if there are sustained lockdowns owing to Covid-19 pandemic. However, Acuité expects the project being completed about 91 percent on physical progress front, about 75 percent units sold and which reduces the risks some extent and future cashflows to remain adequate for the debt obligations after considering the disruptions owing to Covid-19.

## Liquidity Position: Adequate

The PBSR has adequate liquidity position marked by the moderate customer advances to its maturing debt obligations. Liquidity is supported by good salability as well as collections in the ongoing project and external borrowing is only 25 percent of 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.15-20 crore for FY2022 and FY2023. Further, an overdraft limit of Rs.30 crore is expected to support the liquidity to meet the repayment obligations of about Rs.48 crore over a period of three years till FY2024. Despite the expectation of muted cash flows in the near-term, due to the ongoing COVID-19 pandemic, the liquidity would be sufficient for covering the repayment liabilities over the near-term. The Working Capital Term Loan (GECL) loan Rs.15.59 Cr will provide further enhance liquidity profile. Acuité expects the company is expected to continue generating good surplus cashflows from its unsold inventory in the near to medium term and adequate accruals, 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 salability of project or delays in project execution
- Weakening of the financial risk profile due to higher-than-expected borrowing

## Material Covenants:

None

**Outlook: Stable**

Acuité 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    | FY21 (Actual) | FY20 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income              | Rs. Cr. | 17.32         | 4.26          |
| PAT                           | Rs. Cr. | 1.12          | 4.27          |
| PAT Margin                    | (%)     | 6.46          | 100.07        |
| Total Debt/Tangible Net Worth | Times   | (27.15)       | (21.61)       |
| PBDIT/Interest                | Times   | 1.01          | 0.91          |

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

Not Applicable

**Any other information**

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                   |
|--------------|---------------------------------|-----------|------------------|-----------------------------------|
| 13-July-2020 | Secured Overdraft               | Long Term | 30.00            | ACUITE BBB- / Stable (Reaffirmed) |
|              | Term Loan                       | Long Term | 70.00            | ACUITE BBB- / Stable (Reaffirmed) |
| 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**

| Lender Name | Name of the Facilities    | Date of Issuance | Coupon Rate    | Maturity Date  | Size of the Issue (Rs. Cr.) | Ratings/Outlook                 |
|-------------|---------------------------|------------------|----------------|----------------|-----------------------------|---------------------------------|
| Axis Bank   | Term Loan                 | 21-02-2018       | Not Available  | 21-10-2023     | 48.00                       | ACUITE BBB-/Stable (Reaffirmed) |
| Axis Bank   | Overdraft                 | Not Applicable   | Not Available  | Not Applicable | 30.00                       | ACUITE BBB-/Stable (Reaffirmed) |
| Axis Bank   | Working Capital Term Loan | Not Applicable   | Not Applicable | Not Applicable | 15.59                       | ACUITE BBB-/Stable (Reaffirmed) |

|                |                        |                |                |                |      |                                 |
|----------------|------------------------|----------------|----------------|----------------|------|---------------------------------|
| Not Applicable | Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 6.41 | ACUITE BBB-/Stable (Reaffirmed) |
|----------------|------------------------|----------------|----------------|----------------|------|---------------------------------|

## Contacts

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### About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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