

## Press Release

### PBSR Developers Private Limited

November 15, 2022

### Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITE BBB-   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite 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**'.

#### Rationale for the rating

The rating reaffirmation takes into the account the comfort from (Patel Engineering Limited) PEL's 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 ~98 percent physical progress and sale of 75 percent of total leasable area, mitigating the demand risks to an extent. The project is expected to be completed by December 2022. The rating is partially constrained by PBSR's exposure to market risk given the overall sluggishness in demand and exposure to risks of cost/time overruns or delays in monetisation 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 December, 2022.

The registered office is located in Hyderabad.

#### 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.428.00 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.86.08 crore (~25 percent) and customer advances of about Rs. 272.50 crore (~ 65 percent). PBSR incurred a total cost of about Rs. 411.45 Cr (98 percent) as compared to the total project cost of ~Rs. 428.18 Cr. The company has successfully completed the financial closure and the promoters have brought in Rs.49.29 crore (~ 100 percent of their contribution) and received customers advances of Rs. 255.77 crore (~ 92 percent of their contribution) as of March 2022. With the funds in place, the physical construction of the project is above 98 percent complete as on October 30, 2022. As on October 2022, The company has sold 5.66 lakh square feet (sft). Out of 7.07 lakh square feet (sft), this is 80.0 per cent of total space. Acuité believes that adequate funds in place and adequate advances received from customers leaves a larger scope for financial flexibility.

### **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 cyclicity 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. However, Acuité expects the project being completed about 98 percent on physical progress front, about 80 percent units sold and which reduces the risks some extent and future cashflows to remain adequate for the debt obligations.

### **Rating Sensitivities**

- Realization of customer advances pending from sold inventory in time

- Sharp decline in cash flow, by slackened salability of project.

### Material covenants

None

### Liquidity: Adequate

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 25% of the project cost. The PBSR is mainly dependent on customer advances for its project funding and debt repayment. PBSR has prepaid its outstanding term loan of Rs.25 crore in October 2022 by realisations of around Rs.20Cr from sale of 27,500 Sq.Ft area. PBSR has taken new ECLGS loan of Rs.15.59Cr in FY23 and it is used for finishing works. The company is expected to continue generating healthy surplus cash flows from its unsold inventory in the near to medium term. Acuité expects moderate internal accruals, to be sufficient to meet its repayment obligations as well as incremental construction costs

### 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.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	0.86	17.32
PAT	Rs. Cr.	(0.20)	1.12
PAT Margin	(%)	(22.78)	6.46
Total Debt/Tangible Net Worth	Times	(27.85)	(27.15)
PBDIT/Interest	Times	0.98	1.01

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of 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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Aug 2021	Term Loan	Long Term	48.00	ACUITE BBB-   Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	15.59	ACUITE BBB-   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	6.41	ACUITE BBB-   Stable (Reaffirmed)
	Secured Overdraft	Long Term	30.00	ACUITE BBB-   Stable (Reaffirmed)
13 Jul 2020	Term Loan	Long Term	70.00	ACUITE BBB-   Stable (Reaffirmed)
	Secured Overdraft	Long Term	30.00	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's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	54.41	ACUITE BBB-   Stable   Reaffirmed
Axis Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE BBB-   Stable   Reaffirmed
Axis Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	15.59	ACUITE BBB-   Stable   Reaffirmed

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Katta Akhil Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:akhil.katta@acuite.in">akhil.katta@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.