



Press Release
PBSR Developers Private Limited
February 08, 2024
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	-	-

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 reaffirmation:

The rating reaffirmation takes into the account the comfort derived from (Patel Engineering Limited) PEL's promoter profile, established track record of operations 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 considers 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 ~99 percent physical progress and sale of 84 percent of total saleable area, thus mitigating the demand risks to an extent. However, the company has recorded a moderation in sales traction over the last 15 months period (September 2022- December 2023). Going ahead, the sales traction is expected to continue to be moderate as the management wants to capitalise the uptrend in housing prices to mitigate the cost overrun of ~Rs.17Cr.

The rating is further constrained on account of PBSR's exposure to risks associated with the inherent cyclicity in the real estate sector.

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 675 units under three towers. The total cost of the projects is Rs.428 crore and the construction is initially expected to be completed by December, 2023. The registered office is located in Hyderabad.

Unsupported Rating

Not Applicable

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 operations spread all over India. Mr. Rupen Patel, Managing Director of PEL, has an experience of more than two decades in the construction industry. Further, 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, 200 km of tunneling projects etc.

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 (sq.ft.). The construction for the same was started in November 2015 and was to be completed by December 2022. However, the project experienced a cost overrun of ~Rs.17Cr majorly due delayed construction on account of COVID-19 pandemic which led to payment of higher interest. Acuité believes that the promoters' experience in the construction and real estate industry along with improving demand and prices for the residential units in Gachibowli (Hyderabad) area are expected to support in successful sale of the remaining units.

Low funding risk and execution risk

The company incurred additional borrowings to fund the cost overrun.

has However, the company has fully repaid its initial term loan of Rs.70Cr.. With healthy collections standing at Rs. 367.67Cr from customers and the physical construction which is almost completed (99 percent), the risks associated with funding and project execution remains very low.

Weaknesses

Moderate sales and decent collections traction:

Out of the 7,07,520 Sq.ft saleable area, the company has sold 5,96,200 Sq.ft of area for ~Rs.366Cr as of December, 2023 and has recorded with incremental sales of ~30,000 Sq.ft area for ~ Rs.61Cr during past 15 Months period (September 2022 to December 2023). The management has changed its strategy to sell the remaining units at a slower pace in order to get maximum benefit from increasing prices which has led to moderate sales traction in the said period. However, the company has collected ~Rs.94Cr during the 15-month period from already sold units and newly sold units resulting in decent collections.

The unsold area of 1,11,320 Sq ft includes saleable area of 31,420 Sq.ft and mortgaged area of 79,900 Sq ft (area has been mortgaged to Grater Hyderabad Municipal Corporation as per regulations) which is expected to be released by end of FY24 upon issuance of occupancy certificate (OC) by GHMC. Acuite believes that with majority of unsold area under mortgage, the sales of the company going forward are expected to be at a moderate pace owing to the change in sales strategy to capitalize the increase in price levels in order to mitigate the cost overrun. However, the incremental cash flow from the unsold inventory are expected to be sufficient to meet the low debt obligations of Rs.24Cr.

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 future cash flows to remain adequate for the debt repayment obligations as the project has completed 98% physical construction, and has sold about 80% of the total units, thus minimizing the execution risk.

Rating Sensitivities

- Timely sale of unsold inventory leading to improved cash flow.
- Sharp decline in cash flow, due to slackened sales progress for remaining units of project

Liquidity Position: Adequate

PBSR has an adequate liquidity position marked by the healthy customer advances against its maturing debt repayment obligations. Liquidity is supported by healthy sales as well as collections from the project. The current external borrowings for the project stands at ~Rs.25Cr as on December 31, 2023 which would be payable over the next 2-4 years from the sale proceeds of remaining 109 units which is expected to generate cash inflow of around Rs.98Cr over the same period.. Acuite believes that incremental cash flows from the project is expected to be sufficient to meet the future debt repayment obligations.

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, along with the project being in the advanced stages of completion and low outstanding inventory. The outlook may be revised to 'Positive' in case of higher-than-expected advances from customers resulting in adequate cash flows. Conversely, the outlook may be revised to 'Negative' in case of any further delay in sales of unsold inventory leading to stretch on its liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	190.43	0.86
PAT	Rs. Cr.	(20.22)	(0.20)
PAT Margin	(%)	(10.62)	(22.78)
Total Debt/Tangible Net Worth	Times	(3.77)	(27.85)
PBDIT/Interest	Times	(3.05)	0.98

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>
- 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>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.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.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Nov 2022	Proposed Bank Facility	Long Term	54.41	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	15.59	ACUITE BBB- Stable (Reaffirmed)
	Secured Overdraft	Long Term	30.00	ACUITE BBB- Stable (Reaffirmed)
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)

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 avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	54.41	ACUITE BBB- Stable Reaffirmed
Axis Bank	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	30.00	ACUITE BBB- Stable Reaffirmed
Axis Bank	Not avl. / Not appl.	Working Capital Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 May 2026	Simple	15.59	ACUITE BBB- Stable Reaffirmed

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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.

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