

Change in Rating Symbol

September 16, 2019

Suvilas Realities Private Limited

Total Instruments Rated	Rs. 100.00 Cr
Long Term Rating	ACUITE Provisional BBB (CE)/ Stable

Pursuant to SEBI Circular SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019 there is a revision in the rating symbol. The change to 'CE' suffix / removal of 'SO' suffix for the rated instrument(s) is not to be construed as any change in the rating or Acuité's credit opinion on the said instrument(s). The previous rating rationale is appended herewith for reference.

For the background note, please visit: [https://www.acuite.in/pdf/General%20Communication%20For%20Website%20\(1\).pdf](https://www.acuite.in/pdf/General%20Communication%20For%20Website%20(1).pdf)

Criteria for assigning ratings with 'SO' suffix: <https://www.acuite.in/view-rating-criteria-48.htm>

Criteria for assigning ratings with 'CE' suffix: <https://www.acuite.in/view-rating-criteria-49.htm>

Press Release

Suvilas Realities Private Limited

May 22, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE Provisional BBB (SO) / Outlook: Stable#

* Refer Annexure for details

Rating Rationale

Acuité has assigned a long-term rating of '**ACUITE BBB Provisional**' (**SO**) (**read as ACUITE triple B provisional structured obligation**) to the Rs.100.00 Cr. Proposed Non-Convertible Debenture (NCD) issue of Suvilas Realities Private Limited (SRPL). The outlook is '**stable**'.

The rating on the Rs. 100.00 Cr. proposed debentures is provisional and the final rating is subject to the execution and validation of the following documents by Acuité:

- Finalisation of term sheet with all the terms and condition of proposed NCD.
- Execution of a trust deed (with a SEBI registered trustee) that lays down the legal payment mechanism and also the rights and obligations of various parties for the proposed issue.
- Confirmation from the debenture trustee regarding execution of a corporate guarantee and shortfall undertaking from Shriram Properties Limited (SPL) in favour of the investors.

The provisional rating is valid for 90 days and Acuité reserves the right to alter/modify/withdraw the rating any time prior to 90 days, in the case of occurrence of any material credit event.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Suvilas Realities Private Limited and also taken into account the support provided by Shriram Properties Limited (SPL) in the capacity of Development Manager and through corporate guarantee as envisaged in the proposed NCD.

About the Issuer (SRPL)

Suvilas Realities Private Limited is a Bangalore based company incorporated in 2013 by Mr. Sunil Chawdary Muniveerappa and Mr. Umesh Madhugondanahalli. The company is engaged in development of residential and commercial projects.

The company has entered into a "Development Management" agreement with Shriram Properties Limited (SPL) for its project namely, 'Suvilas Palm'. The project is under development and construction is expected to commence from October 2019.

Suvilas Properties Private Limited is the group company of Suvilas Realities Private Limited, incorporated in 2012 by Mr. Sunil Chawdary Muniveerappa, Mrs. Suresha Ramakrishnappa Chikkajala and Mr. Umesh Madhugondanahalli. It has an ongoing project 'Suvilas Gardenia' which is also under development management with Shriram Properties Limited. Initially, Suvilas Palm was proposed to commence in SPPL but later on transferred under SRPL. Both the projects are located adjacent to each other at Jallahalli, North Bangalore.

Key Rating Drivers

Strengths

- **Strong support from Shriram Properties Limited (SPL)**

SRPL was promoted by Mr. Sunil Chawdary Muniveerappa and Mr. Umesh Madhugondanahalli in 2013. The promoter launched their first project in 2011 under another group entity, Suvilas Properties Private Limited named 'Suvilas Gardenia'. This project could not garner bookings as expected and resultantly the account was classified as NPA in Feb 2017. In 2018, the promoters entered into an agreement with SPL to refinance the debt and to lead the project as development manager (DM). Subsequently, the new project i.e. 'Suvilas Palm' (executed under SRPL) is also led by SPL in DM capacity. As a DM, SPL will extend its brand name (Shriram) to the project and handle the marketing and sales. It will also monitor the construction and development stage and ensures timely execution of the project and also fund the project as and when required. As a demonstration of such support, SPL has extended unconditional and irrevocable corporate guarantee and shortfall undertaking for the proposed NCD being issued by SRPL.

- **Strong track record of SPL in the real estate industry**

SPL is a part of the Shriram Group which has four decades of operating history in India. The group has presence across various segments of financial services, engineering and real estate development. SPL is one of the leading residential real estate development companies in South India, primarily focusing on the mid-market and affordable housing categories. The company has its projects in Bangalore, Chennai, Coimbatore, Visakhapatnam and Kolkata. SPL has recorded pre-sales volumes growth at CAGR of 85.00 percent during the financial years 2016 to 2018. SPL has completed 29 residential projects with less than 1 percent of overhang inventory and has 17 ongoing projects with saleable area of 11.71 million sq.ft out of which ~8.42 million sq.ft has been sold as on Feb 28, 2019. Further, it has nine projects under development and twelve upcoming projects aggregating to 20.04 million sq.ft of estimated saleable area. SPL has a very strong brand and reputation along with development track record which has led to its market leadership in the mid-level residential real estate market in South India.

Weaknesses

- **Initial stage of project**

The 'Suvilas Palm' project is to be built on a plot admeasuring 6,75,000 sq. ft. consisting of residential units of 1/2/3 BHK. The project however, is yet to be registered with RERA. Currently this project is under development and construction work is expected to begin from Oct 2019. The total cost of project is Rs.279.92 Cr inclusive of development fee. 11.96% of total cost has been incurred till March 31, 2019 funded by unsecured loan from promoters and inter-corporate deposits. The project is expected to complete by September 2023. The project is at initial stage and exposed to risk related to timely execution of project which is further highly dependent on timely receipt of regulatory approvals and customer advances, that forms major chunk of the total funding requirement of the projects.

- **Inherent cyclical in real estate sector**

The real estate sector is rate sensitive and cyclical which leads to significant lumpiness in the cash flow profiles of real estate players. The demand for residential real estate is driven by factors like interest rates, demographic profile, expectations regarding future incomes and also the level of economic activity in a region. Further SRPL is executing 'Suvilas Palm' under DM model with Shriram Properties Limited (SPL) for the first time. The success of the DM model for this project and working arrangement between SPL and SRPL is yet to be tested.

Liquidity Position:

SRPL liquidity position is currently comfortable with interim funding support from SPL. The liquidity is expected to improve with rise in booking level after RERA registration and project re-launch under the brand name of 'Shriram'.

Outlook: Stable

Acuité believes that SRPL's rating will maintain a 'Stable' outlook over the medium term on account of operational and financial support extended by SPL as a development manager and corporate guarantor. The outlook may be revised to 'Positive' if the company registers healthy booking level along with steady cash flow from customer advances. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management on account of delays in project execution or collection of booking money.

About the Rated Entity – Key Financials

	Unit	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	--	--	--
EBITDA	Rs. Cr.	2.35	(0.00)	(0.00)
PAT	Rs. Cr.	(0.00)	(0.00)	(0.00)
EBITDA Margin	(%)	--	--	--
PAT Margin	(%)	--	--	--
ROCE	(%)	7.47	13.50	11.16
Total Debt/Tangible Net Worth	Times	(2,792.18)	--	--
PBDIT/Interest	Times	1.00	--	(0.60)
Total Debt/PBDIT	Times	26.78	-	-
Gross Current Assets (Days)	Days	--	--	--

[^]The project name 'Suvilas Palm' and 'Suvilas Gardenia' are subject to change.

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments –<https://www.acuite.in/view-rating-criteria-20.htm>
- Real Estates – <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Non- Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE Provisional BBB (SO)/Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-67141111 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Bhanupriya Khandelwal Analyst - Rating Operations Tel: 02267141131 bhanupriya.khandelwal@acuiteratings.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings 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 6,000 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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