

Press Release

Suvilas Realities Private Limited

September 20, 2019



Rating Assigned

Total Instruments Rated*	Rs.100.00 Cr.
Long Term Rating	ACUITE BBB (CE) / Outlook: Stable# (Converted from Provisional Rating to Final Rating)

* Refer Annexure for details

CE in parenthesis suffixed to the rating symbol stands for Credit Enhancement. This symbol is in line with SEBI circular dated June 13, 2019. A CE rating is specific to the rated issue, its terms, and its structure.

Rating Rationale

Acuité has converted the provisional rating assigned to the Non-Convertible Debentures (NCDs) issue aggregating to Rs.100.00 crore of Suvilas Realities Private Limited (SRPL) to final rating of **ACUITE BBB (CE) (read as ACUITE triple B (Credit Enhancement))**. The outlook is '**Stable**'. The conversion of the rating from a provisional rating to a final rating reflects satisfactory completion of the documentation as required by Acuité.

Acuité has received the following final documents from SRPL:

- Term Sheet with all the terms and condition of the NCDs
- Debenture Trust Deed
- Corporate guarantee deed and shortfall undertaking from Shriram Properties Limited (SPL) in favour of the investors.

The key transaction terms in the executed documents are in line with the proposed terms at the time of provisional rating.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SRPL and notched up the standalone rating by factoring in credit enhancement in the form of strong operational support from SPL. SPL is a Development Manager for the projects undertaken by SRPL and has provided unconditional and irrevocable corporate guarantee and shortfall undertaking for the issued NCDs. The guarantee covers the principal, interest, and other monies payable towards the rated NCDs in a timely manner.

About the Issuer (SRPL)

SRPL 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 construction is expected to commence from November 2019.

Suvilas Properties Private Limited is the group company of SRPL, 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. 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 has entered into development management agreement with SPL whereby the project will be re-launched with the brand name of 'Shriram'. SPL will manage the project development, marketing and sales for an agreed development fee. It will also monitor the construction and development stage and ensures timely execution of the project.

Apart from the operational support, SPL has extended an unconditional and irrevocable corporate guarantee coupled with shortfall undertaking for these NCDs issued by SRPL. Further, the investors to the NCDs benefit from credit enhancement provided by way of Debt Service Reserve Account (DSRA) and Escrow mechanism for servicing principal, interest, and other monies payable towards arrangement.

The DSRA which will be for one quarter of repayment, will be build up in the form of fixed deposit 15 days prior to the first due date. It will act as a liquidity cushion and lowers the risk of any shortfall in cash accrual from project.

Acuité believes that the presence of the adequate liquidity buffers and the trustee oversight mechanism strengthens the payment structure.

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

SPL is a part of the Shriram Group, which has four decades of operating track record. The group has presence across various business verticals such as 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 located in Bangalore, Chennai, Coimbatore, Visakhapatnam and Kolkata. SPL has completed 29 residential projects with less than 1 per cent 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 February 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 strong brand presence 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. The project construction work is expected to begin from November 2019. The total cost of project is Rs.279.92 crore inclusive of gross development fee of ~16.00 per cent of the project cost. The project is funded by unsecured loan from promoters, NCDs and customer advances. The project is expected to complete by September 2023.

Acuité believes that timely receipt of regulatory approval and customer advances will be critical for completion of project.

- **Susceptibility to Real Estate cyclical and regulatory risks**

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. SRPL is exposed to the risk of volatile prices on account of demand supply mismatches in the Bangalore real estate industry. 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. Further, the industry is exposed to regulatory risk, which is likely to impact players such as SRPL, thereby impacting its operating capabilities.

Liquidity Position:

SRPL liquidity position is currently adequate with interim funding support from SPL. The liquidity is expected to improve with rise in booking level after RERA registration and project re-launch with 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 flows 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 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	--	--	--
EBITDA	Rs. Cr.	2.35	(0.00)	(0.00)
PAT	Rs. Cr.	(0.01)	(0.00)	(0.00)
EBITDA Margin	(%)	--	--	--
PAT Margin	(%)	--	--	--
ROCE	(%)	7.46	13.50	11.16
Total Debt/Tangible Net Worth	Times	(2,446.62)	--	--
PBDIT/Interest	Times	1.00	--	(0.60)
Total Debt/PBDIT	Times	26.81	-	-
Gross Current Assets (Days)	Days	--	--	--

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

None

Any other information

Salient features of the NCD:

- The NCD will have quarterly redemption at 18 per cent IRR.
- The door-to-door tenure is 60 months with a moratorium of 12 months.
- Creation of liquidity facility in the form of DSRA equivalent to one quarterly debt service payments (in the form of Fixed Deposit).

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>
- Explicit Credit Enhancement -<https://www.acuite.in/view-rating-criteria-49.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of the Instrument/ Facilities	Term	Amount (Rs. Cr.)	Rating/Outlook
22-May-2019	Proposed Non-Convertible Debentures	Long Term	100.00	Provisional ACUITE BBB (SO)/Stable

***Annexure – Details of instruments rated**

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
INE05DJ07010	Secured Redeemable Non-Convertible Debentures (Series A)	30-Aug-19	0.00%	30-06-2022	49.00	ACUITE BBB (CE) /Stable (Converted from Provisional to Final)
INE05DJ07028	Secured Redeemable Non-Convertible Debentures (Series B)	30-Oct-19	0.00%	31-03-2023	37.00	ACUITE BBB (CE) /Stable (Converted from Provisional to Final)
INE05DJ07036	Secured Redeemable Non-Convertible Debentures (Series C)	30-Jan-20	0.00%	30-09-2023	14.00	ACUITE BBB (CE) /Stable (Converted from Provisional to Final)

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About Acuité Ratings & Research:

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