

Press Release

Suvilas Realities Private Limited

D-U-N-S® Number: 87-397-9112

September 16, 2020

Rating Reaffirmed



| | |
|--------------------------|--|
| Total Instruments Rated* | Rs. 100.00 Cr. |
| Long Term Rating# | ACUITE BBB (CE)/ Outlook: Stable (Reaffirmed) |

* Refer Annexure for details

**Credit Enhancement in the form of unconditional and irrevocable guarantee and shortfall undertaking from Shriram Properties Limited (SPL)

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB (CE)**' (read as **ACUITE triple B**) (**Credit Enhancement**) on the Rs. 100.00 Cr. Non-Convertible Debentures of Suvilas Realities Private Limited (SRPL). The outlook is '**Stable**'.

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 the development of residential and commercial projects. The company has entered into a 'Development Management' agreement with Shriram Properties Limited (SPL) for its project, namely 'Shriram Suvilas Garden of Bliss'.

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 'Shriram Suvilas Garden of Joy', which is also under development management with Shriram Properties Limited. Both the projects are located adjacent to each other at Jallahalli, North Bangalore.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SRPL and subsequently 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 an unconditional and irrevocable corporate guarantee and shortfall undertaking for the issued NCDs. The guarantee covers the principal and other payable towards the rated NCDs in a timely manner.

Standalone (Unsupported) Rating: ACUITE B/Stable

Key Rating Drivers

Strengths

- Continuing support from Shriram Properties Limited**

SRPL had entered into a 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 the 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 the project. Acuite believes that the presence of adequate liquidity buffers and the trustee oversight mechanism strengthens the payment structure.

- **Longstanding track record of SPL in the real-estate business**

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 30 residential projects with less than 1 per cent of overhang inventory and has 22 ongoing projects with a saleable area of 17.75 million sq. ft. out of which ~11.61 million sq. ft. has been sold as on March, 2020. Further, it has eleven upcoming projects aggregating to 18.57 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 the 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 but has however, not started. The total cost of project is Rs.322.89 Cr inclusive of gross development fee of ~16.00 per cent of the project cost. The project is funded by an 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 the project.

- **Susceptible to real estate cyclicity 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 the 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 developer's 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.

Rating Sensitivities

- Liquidity profile of Shriram Properties Limited
- Timely execution of project and collections of booking money

Material Covenants

None

Assessment of Adequacy of Credit Enhancement

Acuité has conducted sensitivity on the liquidity position of SPL and has found out that even in stress scenarios, the credit enhancement will stand adequate.

Liquidity: Adequate

SRPL's liquidity position will remain adequate over the medium term on account of interim funding support from Shriram Properties Limited (SPL). The liquidity is expected to improve with the inflow of customer advances as the construction work proceeds 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 a 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 | FY20 (Prov) | FY19 (Actual) |
|-------------------------------|---------|-------------|---------------|
| Operating Income | Rs. Cr. | - | - |
| PAT | Rs. Cr. | (0.01) | (0.01) |
| PAT Margin | (%) | - | - |
| Total Debt/Tangible Net Worth | Times | (2,328.23) | (2,446.62) |
| PBDIT/Interest | Times | 1.00 | 1.00 |

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-52.htm>
- Real Estate Entities- <https://www.acuite.in/view-rating-criteria-63.htm>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.htm>
- Criteria for Group and Parent Support - <https://www.acuite.in/view-rating-criteria-47.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.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 |
|--------------|--|-----------|-----------------|---|
| 20-Sept-2019 | Secured Redeemable Non-Convertible Debentures (Series A) | Long Term | 49.00 | ACUITE BBB (CE)/Stable (Converted from Provisional to Final) (Assigned) |
| | Secured Redeemable Non-Convertible Debentures (Series B) | Long Term | 37.00 | ACUITE BBB (CE)/Stable (Converted from Provisional to Final) (Assigned) |
| | Secured Redeemable Non-Convertible Debentures (Series C) | Long Term | 14.00 | ACUITE BBB (CE)/Stable (Converted from Provisional to Final) (Assigned) |
| 22-May-2019 | Proposed Non-Convertible Debentures | Long Term | 100.00 | ACUITE Provisional BBB (SO)/Stable (Assigned) |

*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-June-22 | 49.00 | ACUITE BBB (CE)/Stable (Reaffirmed) |

| | | | | | | |
|--------------|--|-----------|-------|-----------|-------|-------------------------------------|
| INE05DJ07028 | Secured Redeemable Non-Convertible Debentures (Series B) | 30-Aug-19 | 0.00% | 31-Mar-23 | 37.00 | ACUITE BBB (CE)/Stable (Reaffirmed) |
| INE05DJ07036 | Secured Redeemable Non-Convertible Debentures (Series C) | 30-Aug-19 | 0.00% | 30-Sep-23 | 14.00 | ACUITE BBB (CE)/Stable (Reaffirmed) |

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About Acuité Ratings & Research:

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