

## Press Release

### Suvilas Realities Private Limited

October 06, 2021



### Rating Reaffirmed

<b>Total Instruments Rated*</b>	Rs. 100.00 Cr
<b>Long Term Rating</b>	ACUITE BBB/ Outlook: Stable (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs.100.00 Cr Non-convertible debentures (NCDs) of Suvilas Realities Private Limited (SRPL). The outlook is '**Stable**'.

#### Rationale for rating reaffirmation

The rating reaffirmation considers the established market presence of the Shriram Properties Limited in the real estate market of South India, the extensive experience of the Shriram Properties Limited (SPL) in projects as Development manager, favorable sales velocity in the ongoing project and continued business and financial support from Shriram Properties Limited. These rating strengths are partly offset by geographical concentration in the revenue profile and its susceptibility to cyclicalities inherent to real estate industry.

#### About the Issuer

Suvilas Realities Private Limited (SRPL) is a Bangalore-based company incorporated in 2013 by Mr. Sunil Chowdary Muniveerappa and Mr. Umesh Madhugondanahalli. SRPL 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'. SRPL's ongoing project is located in Jallahalli, North Bangalore (Karnataka). The business plan of the SRPL's management is to generate cash flows through developing and selling residential units. The project is to build 660 (1/2/3 BHK) residential units through developing 7 building blocks. The expected total saleable area stands at 6,54,423 Sq.fts. The revenue in terms of sale as residential units from the ongoing projects is estimated around Rs.362.31 Cr with project development cost to be estimated around Rs.287.98 Cr. The project launch was delayed due to delays in approvals from authorities and further, on account of Covid-19 pandemic. The RERA certificate was received in March'2021 and the project was launched in July'2021. The scheduled project completion date is estimated by November'2024. As of August'2021, SRPL has sold close to around 91 units out of 660 units of Suvilas Garden of bliss, amounting to nearly 1 Lakh Sq.fts.

#### About the Group Company

Suvilas Properties Private Limited (SPPL) is the group company of SRPL, incorporated in 2012 by Mr. Sunil Chowdary 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. The business plan is to generate cash flows through sale of land by developing residential units. The project is to build 152 (1/2/3 BHK) residential units through developing 2 building blocks. The expected total saleable area stands at 1,99,176 Sq.fts. The scheduled project completion date is estimated by October'2022. As of August'2021, SPPL has sold close to around 1.5-1.6 Lakh Sq.fts. out of 2.0 Lakh Sq.fts.

#### Analytical Approach

Acuité has considered the standalone business and financial risk profile of SRPL and subsequently notched up the standalone rating by factoring in strong operational and financial support from Shriram Properties Limited (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 and other payable towards the rated NCDs in a timely manner.

**Change in suffix:** The credit enhancement suffix "CE" will not be applicable in the current rating exercise in absence of a structured payment mechanism. The approach has been revised from a Credit Enhancement (CE) to a standalone rating with a notch up based on support from the Shriram Properties Limited (SPL).

## **Key Rating Drivers**

### **Strengths**

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

Shriram Properties Limited (SPL) is a part of the Shriram Group, which has 4 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. As of March 31, 2021, SPL has completed 30 residential projects with total leasable area of 1.53 lakh Sq.fts and has 32 ongoing projects with saleable area of 2.17 lakh Sq.fts. out of which 1.35 lakh Sq.fts. has been sold as on March, 2021. Further, it has 10 upcoming projects aggregating to 1.75 lakh Sq.fts. of estimated saleable area. SPL is acting as DM partner to construct & lease out the 18.96 lakhs Sq Ft. As of March'2021, 4.41 lakhs Sq Ft is constructed and leased out, remaining area is under construction. 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. The company has filed a Draft Red Herring Prospectus (DRHP) in April'2021 to raise up to Rs. 800 Cr through an Initial Public Offering (IPO). The net proceeds from the new issue is expected to be used for debt repayment and/or prepayment, as well as general corporate purposes. Acuité believes that SPL's extensive industry experience and leveraging of its brand equity will lead to moderate implementation and demand risk associated with upcoming projects of SRPL over the medium term.

- Continuous support from Shriram Properties Limited**

SRPL had 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. Besides, the investors to the NCDs benefit from Escrow mechanism for servicing principal, interest, and other NCDs obligations. Acuité believes that the presence of operational and financial support from the SPL is likely to augment the business and financial risk profile of the company.

- Moderate project risk profile**

The agreement for issue of Rs.100.00 Cr worth Non-Convertible Debentures (NCDs) has been signed between the Investor (IIFL Asset Management Limited) and the Issuer (Suvilas Realities Private Limited). The NCDs has been issued to an extent of Rs.68.00 Cr out of the Rs.100.00 Cr leading to limited funding risk on the ongoing project. The implementation risk of the project stands moderate on account of presence of operational support from Shriram Properties Limited in terms of development management services. Notably, the unit's sales data by SRPL in 'Shriram Suvilas Garden of bliss' indicate that the demand has been recovering steadily in the real estate sector leading to favorable property prices for SRPL over the last 2-3 months. Acuité believes that the project risk profile of SRPL will remain moderate over the medium term.

### **Weaknesses**

- High geographical concentration risk in revenue profile with upcoming projects**

SRPL's ongoing projects are in Bengaluru (Karnataka); with no plans to diversify in the medium term. Acuité believes that SRPL would remain geographically concentrated until the start-up and successful completion of any project and receipt of healthy customer advances through the sale of entire units in any other region in future.

- Susceptible 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 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 Bengaluru real estate industry. The company is exposed to market risks for the unsold inventory, in terms of sales velocity, pricing and timely collection, particularly if there are sustained lockdowns owing to Covid-19 pandemic. Further, the industry is exposed to regulatory risk, which is likely to impact players such as SRPL, thereby impacting its operating capabilities. However, Acuité believes that from the customer demand for the ongoing project being developed under 'Shriram Suvilas Garden of bliss' has been strong as evident from the unit's sales data and mitigates the risks to an extent.

### Liquidity Position: Adequate

SRPL's liquidity position will remain adequate over the medium term on account of presence of escrow accounts of both projects to ensure timely repayment of NCDs obligation and further on account of interim funding support from Shriram Properties Limited (SPL). The launch of project 'Shriram Suvilas Garden of bliss' was delayed due to delays in obtaining the approvals from government bodies and authorities and also to an extent on account of Covid-19 pandemic. The company received all the approvals by March 2021 but on account of 2nd wave of Covid-19 pandemic, the project launch was postponed to July'2021. As of August'2021, SRPL has sold close to around 91 units out of 660 units of Suvilas Garden of bliss, amounting to nearly 1 Lakh Sq.fts. Moderate metrics on construction, customer advances and sales against majority of debt availed is expected to lead to DSCR of around 1.81x times in base case scenario. SRPL is mainly dependent on customer advances and NCD proceeds for its project funding and debt repayment. The liquidity is expected to improve with inflow of customer advances as the construction work progress for both of the projects.

### Rating Sensitivities

#### Positive

- Timely completion of construction or timely realization of customer advances pending from sold inventory
- Timely sale of the unsold inventory and realization of its customer advances
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.
- Sustainable improvement in realization per unit by the company.

#### Negative

- Sharp decline in cash flow, by slackened salability of project or further delays in project execution leading to high customer risk and cash flow mismatch.
- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company.

### 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 and customer advances.

### About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	-	-
PAT	Rs. Cr.	(0.04)	(0.04)
PAT Margin	(%)	-	-
Total Debt/Tangible Net Worth	Times	(871.77)	(1,117.73)
PBDIT/Interest	Times	1.00	0.98

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

Not Applicable

### Any other information

None

### Material Covenants

None

### 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>
- 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
16 September, 2020	Secured Redeemable Non-Convertible Debentures (Series A)	Long Term	49.00	ACUITE BBB(CE)/Stable (Reaffirmed)
	Secured Redeemable Non-Convertible Debentures (Series B)	Long Term	37.00	ACUITE BBB(CE)/Stable (Reaffirmed)
	Secured Redeemable Non-Convertible Debentures (Series C)	Long Term	14.00	ACUITE BBB(CE)/Stable (Reaffirmed)
20 September, 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 (CE)/Stable(Assigned)

**\*Annexure – Details of instruments rated**

Lender Name	ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	INE05DJ 07010	Secured Redeemable Non-Convertible Debentures (Series A)	30-Aug-19	0.00%	30-June-22	49.00	ACUITE BBB/Stable (Reaffirmed)
Not Applicable	INE05DJ 07028	Secured Redeemable Non-Convertible Debentures (Series B)	30-Aug-19	0.00%	31-Mar-23	37.00	ACUITE BBB/Stable (Reaffirmed)
Not Applicable	INE05DJ 07036	Secured Redeemable Non-Convertible Debentures (Series C)	30-Aug-19	0.00%	30-Sep-23	14.00	ACUITE BBB/Stable (Reaffirmed)

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### About Acuité Ratings & Research:

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