

Press Release

Suvilas Realities Private Limited

September 08, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	100.00	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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'**.

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 cyclicity 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 palms'. 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. SRPL is presently developing a residential project (under the name of 'Shriram Suvilas palms') at Jallahalli is a suburb in northern part of Bengaluru is one of the greenest areas of Bengaluru with a total saleable area of 6.54 lakh square feet to construct 660 units. The total cost of the project is ~Rs.386.77 Cr and the RERA certificate was received in March'2021 and the project was launched in July'2021. The scheduled project completion date is estimated by March'2026.

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. 'Shriram Suvilas Garden Joy located at Jalahalli Bengaluru with a total saleable area of ~2.00 lakh square feet to construct 152 units. The total cost of the project is ~Rs.84.46 Cr and is expected to be completed by April, 2024.

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.

Key Rating Drivers

Strengths

Longstanding track record of SPL in the real-estate business and strong pipeline of ongoing projects

SPL is part of renowned Chennai-based Shriram group, which came into existence in 1974. The group has presence across various segments of financial services industry, engineering and real estate development. Shriram Properties Limited (SPL), real estate arm of Shriram group, largely operates in residential real estate segment. The company since inception, on consolidated basis, has completed projects with saleable area of 17.90 msf. As on June 2022, company is undertaking residential projects with total saleable area of 33.10 msf. The company successfully got listed on BSE and NSE during December 2021. SPL is one of the leading residential real estate development companies in South India, primarily focusing on the mid-market and affordable housing categories. 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 particularly in Bangalore. 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 and presence of unconditional and irrevocable corporate guarantee

SRPL had entered into development management agreement with SPL whereby the project will be relaunched 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.

Favourable location of the project

The project is located in the Jalahalli is a suburb in northern part of Bengaluru area which falls on the one of the greenest areas of Bengaluru. Bangalore city and thus it has good connectivity with major areas of the city. It is also has the Jalahalli metro station, and will have direct connectivity through it with important areas in the city. Acuité believes that Good location and metro connectivity, will attract customers and support salability over the medium term.

Weaknesses

Exposure to project implementation risk

SRPL is developing a residential project in Jalahalli Bengaluru. The construction of the project is

started in March, 2021 and they are expected to be completed by March 2026. The total developer saleable area of the aforesaid project is 6.55 lakh square feet with a total project cost of ~Rs.386.77 Cr. It is expected to be funded through NCD of Rs.68 Cr (~17 percent) and promoter contribution 150.00 Cr (~20 percent) and Rs.242.28 Cr (~63 percent) through customer advances. As on June 30, 2022, only ~5% of the construction cost being incurred and received the bookings for 94 flats out of 660. The company has completed the pre-construction steps including all regulatory approvals for commencement of construction. The project being in the nascent stage of construction with excavation completed for and structural works being undertaken. Going forward, ramp-up in the collections through new sales/construction linked payments may be required to meet the envisaged construction timelines. Timely support from the SPL will remain crucial in case the customer advances fall below the envisaged levels to support the construction momentum. Acuité believes that the project is still exposed to construction risk as it is in the nascent stages of development and is exposed to execution, funding and market risks. The completion of the project without any time or cost overrun, incremental bookings and timely receipt of advances remain key sensitivity factors.

Exposed to inherent cyclicity in real estate sector

The real estate sector is marked by volatile prices and a highly fragmented market structure because of the presence of a large number of regional players. In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which in turn render the company's sales vulnerable to any downturn in demand.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- 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
- Further delays in project execution leading to cash flow mismatches
- Sustainable improvement in profitability, leverage and solvency position of the company

Material covenants

None

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 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 and out of Rs.68 Cr only Rs. 19 Cr is outstanding which is expected to be close by December, 2022 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.

As of June, 2022 SRPL has sold close to around 94 units out of 660 units amounting to nearly 1.02 lakh Sq.ft. 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. Moreover, Acuité believes the SPL is continued to support SRPL in the event of any further cash flow requirement.

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.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(3.93)	(0.04)
PAT Margin	(%)	(561828.58)	0.00
Total Debt/Tangible Net Worth	Times	(22.21)	(871.77)
PBDIT/Interest	Times	0.75	1.00

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>
- Real Estate Entities: <https://www.acuite.in/view-rating-criteria-63.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Oct 2021	Non Convertible Debentures	Long Term	49.00	ACUITE BBB Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	37.00	ACUITE BBB Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	14.00	ACUITE BBB Stable (Reaffirmed)
16 Sep 2020	Non Convertible Debentures	Long Term	37.00	ACUITE BBB (CE) Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	14.00	ACUITE BBB (CE) Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	49.00	ACUITE BBB (CE) Stable (Reaffirmed)
20 Sep 2019	Non Convertible Debentures	Long Term	14.00	ACUITE BBB (CE) Stable (Assigned)
	Non Convertible Debentures	Long Term	49.00	ACUITE BBB (CE) Stable (Assigned)
	Non Convertible Debentures	Long Term	37.00	ACUITE BBB (CE) Stable (Assigned)
22 May 2019	Proposed Non Convertible Debentures	Long Term	100.00	ACUITE Provisional BBB (SO) Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	INE05DJ07028	Non-Convertible Debentures (NCD)	Not Applicable	Not Applicable	Not Applicable	37.00	ACUITE BBB Stable Reaffirmed
Not Applicable	INE05DJ07036	Non-Convertible Debentures (NCD)	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BBB Stable Reaffirmed
Not Applicable	INE05DJ07010	Non-Convertible Debentures (NCD)	Not Applicable	Not Applicable	Not Applicable	49.00	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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