

## Press Release

Sara Builders and Developers

June 11, 2019

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 120.00 Cr.
<b>Long Term Rating</b>	ACUITE BB/ Stable

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) to the Rs. 120.00 crore bank facilities of SARA BUILDERS AND DEVELOPERS (SBD). The outlook is '**Stable**'.

Established in 1997, Sara Builders and Developers is a Maharashtra based partnership firm engaged in the construction and development of residential projects. The firm is promoted by Mr. Sitaram Agarwal. Currently, it is constructing and developing around 3 residential projects, of which two are located in Pune and one in Aurangabad.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of SBD to arrive at the rating.

### Key Rating Drivers

#### Strengths

- **Long track record and experienced promoters**

The firm is promoted by Mr. Sitaram Agrawal who has been involved in the real estate industry for over two decades. He is supported by his two sons Mr. Rupesh Agrawal and Mr. Nilesh Agrawal, who are experienced in the same line of business.

The firm has an established presence in Aurangabad and Pune where it has completed about 6 million sq. ft. of residential spaces. The firm mainly focuses on affordable housing and caters to middle class income group and salaried individuals. Acuité believes that the group will continue to benefit from established position and experience of the promoters in the industry.

#### Weaknesses

- **Significant execution commitments**

The firm has launched two new projects in Pune– Sara City and Sara Sanskruti as well as one project in Aurangabad - Sara Gokuldharm with a total saleable area of ~10,16,134 square feet. Till date, the firm has incurred roughly 41% of the total estimated construction cost of Rs. 241 crore. With a significant construction cost of about Rs. 142 crore yet to be incurred, the exposure to project execution risk remains high. Moreover, cyclicality in real estate sector and high borrowing costs could further escalate the project execution risk. It is to be noted that around 63% of the total construction cost will be funded by customer advances. The firm has received modest customer advances of around Rs. 30 crore till date. However, the firm expects to receive around Rs. 345 crore of customer advances in the medium term. Acuité believes that the firm's ability to generate steady flow of customer advances and sales proceeds will ensure timely completion of projects and will be a key rating sensitivity factor.

- **Susceptibility to real estate cyclicality and regulatory risks**

The firm is exposed to the risk of volatile prices on account of frequent demand supply mismatches in the industry. The Real Estate sector is under high stress on account of large amounts of unsold inventory and high borrowing 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. Acuité believes that the firm's ability to generate adequate cash flows for timely servicing of debt obligations will remain

a key rating sensitivity.

### Liquidity Profile

SBD's liquidity position remains under pressure in the backdrop of repayment of high debt obligations and moderate sale of inventory. Acuite believes that the firm's ability to generate adequate cash flows from customer booking and timely servicing of debt obligations will remain a key rating monitorable.

### Outlook: Stable

Acuite believes that SBD will maintain a 'Stable' outlook over the medium term on account of established track record of promoters in the industry. The outlook may be revised to 'Positive' in case the firm receives significantly higher than expected customer advances, while attaining timely completion of the project. Conversely, the outlook may be revised to 'Negative' in case of slower than expected customer advances further impacting the repayment ability of upcoming maturities.

### About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	59.29	50.58	47.23
EBITDA	Rs. Cr.	30.89	22.23	20.55
PAT	Rs. Cr.	4.90	3.81	3.15
EBITDA Margin	(%)	52.09	44.15	43.51
PAT Margin	(%)	8.26	7.54	6.68
ROCE	(%)	17.03	14.16	13.76
Total Debt/Tangible Net Worth	Times	2.98	3.33	3.93
PBDIT/Interest	Times	1.20	1.22	1.20
Total Debt/PBDIT	Times	4.70	5.65	5.69
Gross Current Assets (Days)	Days	1,248	1,212	1,257

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Real estate entities - <https://www.acuite.in/view-rating-criteria-41.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
Term loans	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BB/Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BB/Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BB/Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB/Stable (Assigned)

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### About Acuité Ratings & Research:

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