

Press Release

Sumit Woods Limited

August 14, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 22.35 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 22.35 crore bank facilities of SUMIT WOODS LIMITED. The outlook is '**Stable**'.

Mumbai-based, Sumit Woods Limited (SWL) was established as a partnership firm in 1987 by Mr. Mitaram R. Jangid and the constitution changed into private limited company in 1997. Later, in 2018, the constitution changed into public limited company. The company is engaged in construction of residential and commercial buildings across Mumbai and Goa since 1987. Mitasu Developers is a 100 percent subsidiary of SWL. Further, the 3 joint ventures namely Sumit Chetna Venture (SCV), Sumit Kundil Joint Venture (SKJV) and Sumit Pragati Shelters LLP (SPS) are under the same debt obligation. The company has 3 ongoing projects (1 under its subsidiary and 2 under SWL) and 1 future project. The company also undertakes projects in JV and the group has executed over 48 projects since 1987.

Analytical Approach

Acuité has consolidated the business and financial risk profile of Sumit Woods Limited (SWL), Mitasu Developers Private Limited (MDPL, currently 100% subsidiary of SWL), Sumit Chetna Venture (SCV), Sumit Kundil Joint Venture (SKJV) and Sumit Pragati Shelters LLP (SPS) together referred to as the 'Sumit Group'. The consolidation is in view of the similar line of business, common ownership and financial synergies among the projects. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

• Established track record and resourceful promoter group

Sumit Group, founded by Mr. Mitaram R. Jangid, is a well-established group having business vintage of more than two decades in real estate development projects. Since then, Sumit group has successfully delivered over 48 projects under Sumit Woods Limited including projects with Joint Ventures in Mumbai and Goa. Presently, there are 3 ongoing projects at different stages of construction.

Mitasu Developers Private Limited (MDPL) is a 100% subsidiary of SWL. Further, Sumit Chetna Venture (SCV), Sumit Kundil Joint Venture (SKJV) and Sumit Pragati Shelters LLP (SPS) are SPVs of SWL. Projects under the above mentioned SPVs are completed.

SWL is currently developing three projects, 'Sumit Bells, Plot C', 'Sumit Mount Building No. 5' and 'Sumit Shreenath Icon' having funding support of 13.78 percent from promoters, majority of which is already infused. 'Sumit Bells, Plot C' and 'Sumit Mount Bldg. No. 5' are 100% under SWL; however, 'Sumit Shreenath Icon' is a joint development project with ~65 per cent share of SWL and remaining share is with the land owner.

Acuité believes that the group's established track record of successful project execution and brand presence along financial backing from promoter group will continue to support its business risk profile over near to medium term.

Weaknesses

• High dependence on customer advances and execution risk

SG is currently executing three projects for which all of required clearances have already been done. The total cost of these projects is ~Rs. 117.43 crores of which ~13.45 per cent cost has been incurred as on 31 March 2019.

'Sumit Bells, Plot C' project which is developed by SWL is located at Goa. The total cost of project is Rs. 12.25 crores of which ~80 per cent has been incurred as on 31 March, 2019. However, the sales traction towards this project has remained low marked by ~6 per cent of the total saleable area has been booked. The customer advance received as on 31 March 2019 is around Rs. 0.09 crore. SWL plans to complete the construction of 'Sumit Bells, Plot C' by December, 2019.

'Sumit Mount Bldg. No. 5' project located at Goa, the total cost of project is Rs. 4.38 crore of which around 23 per cent has been incurred as on 31 March 2019. Further, there has been no sales traction until 31 March, 2019 toward this project. However, there is no external borrowing in this project. The project is completely funded through unsecured loans from directors and customer advances. Hence, SWL's dependence towards customer advances will remain high for timely completion of the project.

'Sumit Shreenath Icon' located at Mulund West, Mumbai (Maharashtra) is at its nascent stage and expected to start by August 2019 under SWL (Joint Development with ~65 per cent share of SWL and remaining ~35 per cent share of land owner). The cost incurred as on 31 March, 2019 is to the tune of Rs. 5.00 crore (4.96 percent) as against the total project cost of Rs. 100.80 crore. Further, this project is yet to achieve financial closure.

The traction in receipt of customer advances is dependent on project completion. The group's ability to execute projects as per schedule is highly dependent on timely receipt of regulatory approvals along with customer advances, which forms major portion of the total funding requirement of the projects. Therefore, Acuite believes that the group's ability to execute the projects as per schedule and while achieving sales traction towards these projects will remain key rating sensitivity.

• Susceptibility to Real Estate cyclicality 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. Sumit Group 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. 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 SG, thereby impacting its operating capabilities.

Liquidity Position

The liquidity position of Sumit Group is adequate marked by no near term large repayment obligation. Sumit Group has financed the projects by promoter's infusion of ~Rs. 16.18 crore, bank loan of Rs. 47.00 crore and remaining is dependence on customer advances of Rs. 54.25 crore. Rs. 45.00 crore of loan is expected to be disbursed by August, 2019 and quarterly repayments for this loan are expected to start from July, 2021. Further, the repayment for remaining Rs. 2.00 crore loan will start by Q4-2021. Thus, the servicing of debt obligation is highly dependent on adequate booking levels with sufficient customer advances to generate positive cash flows.

Outlook: Stable

Acuite believes that SG will maintain 'Stable' business and financial risk profile in the medium term on the back of experienced management and established presence of the group in the real estate industry. The outlook may be revised to 'Positive' if the group generates steady cash flows from customer advances. Conversely, the outlook may be revised to 'Negative' in case of stretch in the group's liquidity position on account of delays in project execution or lower than expected sales traction towards these projects.

About the Group

Sumit Group consist of Sumit Woods Limited (SWL), Mitasu Developers Private Limited (MDPL, currently 100% subsidiary of SWL), Sumit Chetna Venture (SCV), Sumit Kundil Joint Venture (SKJV) and Sumit Pragati Shelters LLP (SPS). Completed, ongoing and future projects under the group are-

S. No.	Project Name	Company/ Joint Venture Name	Project Status
1	Sumit Samarth Arcade	100% Sumit Woods Limited	Completed
2	Gorai Mitasu	100% Sumit Woods Limited	Completed
3	Rajendra Nagar Sharda Sahaniwas	Sumit Chetna Venture	Completed
4	Sumit Province	Sumit Kundil Joint Venture	Completed
5	Sumit Abode II	Sumit Pragati Shelters LLP	Completed
6	Sumit Greendale (Phase I)	Sumit Pragati Shelters LLP	Completed
7	Sumit Greendale (Phase II)	Sumit Pragati Shelters LLP	Completed
8	Sumit Bell, Goa, Plot B	100% Sumit Woods Limited	Completed
9	Sumit Mount (Building 1 to 5) *	100% Sumit Woods Limited	*
10	Sumit Bells, Goa, Plot C	100% Sumit Woods Limited	Ongoing
11	Sumit Shreenath Icon	Mitasu Developers Private Limited	Ongoing
12	Sudamapuri	100% Sumit Woods Limited	Future

* Sumit Mount consist of 5 buildings out of which building 1 & 2 is fully completed with no inventory left, building 3 is completed with unsold inventory of 2985 sq. ft. (i.e. 1.25 crore), building 4 will be constructed later (not planned) and building 5 is under construction.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	19.83	17.39	35.73
EBITDA	Rs. Cr.	8.70	8.73	6.70
PAT	Rs. Cr.	3.78	3.24	2.63
EBITDA Margin	(%)	43.86	50.22	18.74
PAT Margin	(%)	19.07	18.64	7.36
ROCE	(%)	9.57	11.09	20.94
Total Debt/Tangible Net Worth	Times	0.43	0.79	1.19
PBDIT/Interest	Times	2.45	2.08	1.70
Total Debt/PBDIT	Times	3.34	3.65	4.70
Gross Current Assets (Days)	Days	1133	1156	702

#The Key Financials mentioned above are consolidated financials of Sumit Woods Limited and Mitasu Developers Private Limited (100 percent subsidiary of Sumit Woods Limited).

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

Not Applicable

Any other information

None

Applicable Criteria

- Real Estate Entities - <https://www.acuite.in/view-rating-criteria-41.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.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
Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	22.35	ACUITE BBB- / Stable (Assigned)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Priyal Jain Analyst - Rating Operations Tel: 022-49294063 priyal.jain@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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