

Press Release

Sumit Woods Limited

November 03, 2020

Rating Reaffirmed and Withdrawn



Total Bank Facilities Rated*	Rs.8.55 Cr. (Reduced from Rs.22.35 Cr.)
Long Term Rating	ACUITE BBB-/Outlook: Stable (Reaffirmed and Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.8.55 crore (Reduced from Rs.22.35 Cr.) bank facilities of Sumit Woods Limited (SWL). The outlook is '**Stable**'.

Also, Acuite has withdrawn the long term ratings of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) which was previously assigned to dropline overdraft facility of Rs.23.35 crores in accordance with Acuite's withdrawal policy.

Mumbai based Sumit Woods Limited (SWL), was incorporated in 1997. The company is engaged in the construction of residential and commercial buildings across Mumbai and Goa since 1987. The promoters had started their business under the partnership firm named 'Sumit Constructions'. The company is listed on National Stock Exchange (NSE).

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 4 ongoing projects (1 under its subsidiary and 3 under SWL) and 3 future projects. The company has also undertaken two projects in JV ~ Sumit Garden located at Borivali, Mumbai (12.50 percent share of SWL) and Span Trident located at Bhayander - West, Thane (25.00 percent share of SWL). The group has executed over 48 projects since inception.

Analytical Approach

Acuite 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 and common ownership. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management, long track record of operations and resourceful promoter group**

Sumit Group was founded by Mr. Mitaram R. Jangid and is a well-established group having a 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 4 ongoing projects at different stages of construction and 2 other under JV. Mitasu Developers Private Limited (MDPL) is a 100 percent 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 four projects, 'Sumit Bells, Plot C', 'Sumit Mount Building No. 5', 'ARCENCIAEL - Sumit Shreenath Icon' and 'Sumit Plumeria' having funding support of 25.68 percent from promoters, majority of which is already infused. 'Sumit Bells, Plot C', 'Sumit Plumeria' and 'Sumit Mount Bldg. No. 5' are 100 percent under SWL; however, 'ARCENCIAEL - Sumit Shreenath Icon' is a joint development project with ~61.52 per cent share of SWL and the remaining share is with the land owner.

Acuite believes that the group's established track record of successful project execution and brand presence along with 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 four projects for which all of the required clearances have already been done. The total cost of these projects is ~Rs.123.88 crores of which ~ 30.17 per cent cost has been incurred as on 31 March 2020 (Provisional).

'Sumit Bells, Plot C' project, which is developed by SWL is located at Goa. The total cost of the project is Rs.10.65 crores of which ~ 76.53 per cent has been incurred as on 31 March, 2020 (Provisional). However, the sales traction towards this project has remained low, marked by ~ 4.76 per cent of the total saleable area has been booked. The customer advance received as on 31 March, 2020 (Provisional) is around Rs.0.40 crore. SWL plans to complete the construction of 'Sumit Bells, Plot C' by December, 2020.

'Sumit Mount Bldg. No. 5' project located at Goa, the total cost of the project is Rs.4.95 crore of which around 40.40 per cent has been incurred as on 31 March, 2020 (Provisional). Further, the sales traction towards this project has remained ~ 25.28 per cent of the total saleable area has been booked. The customer advance received as on 31 March, 2020 (Provisional) is around Rs.0.52 crore. However, there is no external borrowing availed in this project. The project is completely funded through unsecured loans from directors and customer advances as on 31 March, 2020 (Provisional). Hence, SWL's dependence towards customer advances and external borrowing will remain high for the timely completion of the project.

'ARCENCIEL - Sumit Shreenath Icon' located at Mulund West, Mumbai (Maharashtra) is at its nascent stage and was started by August 2019 under SWL (Joint Development with ~61.52 per cent share of SWL and remaining ~35 per cent share of land owner). The cost incurred as on 31 March, 2020 (Provisional) is to the tune of Rs. 24.51 crore (26.89 percent) as against the total project cost of Rs. 91.16 crore. Further, this project has achieved financial closure. The traction in receipt of customer advances is dependent on project completion and has received Rs. 2.28 crores customer advances as on 31 March, 2020 (Provisional).

'Sumit Plumeria' located at Ponda, Goa is at its nascent stage and was started by September 2019 under SWL. The total cost of the project is Rs. 17.12 crore of which around 15.89 per cent has been incurred as on 31 March, 2020 (Provisional). The project has received Rs. 0.53 crores advances as on 31 March, 2020 (Provisional).

However, traction in sales in some of the projects like Sumit Bells and Sumi Mount is visible in the first two quarter ended September, 2020. 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 a major portion of the total funding requirement of the projects. Therefore, Acuite believes that the group's ability to execute the projects as per the schedule and while achieving sales traction towards these projects will remain key rating sensitivity.

• Susceptibility to Real Estate cyclicality, economic slowdown 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. 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. Acuite believes the revival of demand in the real estate sector and the impact of the ongoing pandemic affecting cash inflows of most of the players in the sector remains a key challenge.

Liquidity Position: Adequate

The group maintains adequate liquidity position marked by net cash accruals of Rs. 3.70 to 8.40 crore for last three years ending FY2020 (Provisional) against debt repayment of ~Rs. 0.70 to 6.60 crores over the same period. The current ratio of the group stood at 4.76 times as on March 31, 2020 (Provisional). NCA/TD stood at 0.11 times as on 31st March, 2020 (Provisional) and 0.09 times in the previous year. However, is resourceful promoter group and has brought in all equity required for the projects as their contribution.

Rating Sensitivities

- Sustaining existing business and financial risk profile
- Timely execution of projects and adequate funding
- Traction in sales and maintaining liquidity profile

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 the 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 Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	48.74	53.88
PAT	Rs. Cr.	6.59	3.00
PAT Margin	(%)	13.52	5.56
Total Debt/Tangible Net Worth	Times	0.61	0.35
PBDIT/Interest	Times	2.32	1.85

Note: Above financials are consolidated.

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

None

Any other information

Not Applicable

Any Material Covenants

Not Any

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.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
14-Aug-2019	Dropline Overdraft	Long Term	22.35	ACUITE BBB-/ Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Name of the Bank	Ratings/Outlook
Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	22.35	State Bank of India	ACUITE BBB- (Withdrawn)
Term Loan	November 2019	Not Applicable	October 2029	8.55	ICICI Bank	ACUITE BBB-/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Rupesh Patel Senior Analyst – Ratings Tel: 022-49294044 rupesh.patel@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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