

Press Release

Sumit Woods Limited

May 04, 2023

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	8.55	ACUITE BBB Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	8.55	-	-

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) on the Rs. 8.55 Cr bank facilities of Sumit Woods Limited (SWL). The outlook is '**Stable**'.

Rationale for Upgrade

The rating upgrade considers the improved operational performance of SG in terms of healthy sales and collection traction, primarily for their Mumbai-based projects. SG has also partly prepaid its loans in one of the projects through collections from customer advances. Of the total six ongoing projects, two are nearing completion(one of them getting completed before the schedule). The rest of the projects are going on as per the schedule. SG increased its authorised share capital by Rs. 10 crores during FY2023.

The rating also draws comfort from SG's moderate financial risk profile and adequate liquidity position. It takes into consideration the experience of the promoters, their long track record of operations spanning more than three decades, and timely project executions in the past. However, the rating remains constrained due to execution risk for ongoing projects as well as planned launches. Further, high dependence on customer advances, geographical concentration, and exposure to the inherent cyclicity in the real estate market also constrain the rating.

About Company

Mumbai based 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 Group has six ongoing projects -2 under its subsidiary - 'Mitasu Developers Private Limited' and 'Sumit Matunga Private Limited'(80 percent shareholding) and 4 under SWL. The group has executed over 57 projects since inception.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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 Snehashish Ventures, Sumit Snehashish Joint Venture, Sumit Kundil Joint Venture (SKJV), Sumit Pramukh Venture and associate Sumit Reality Private Limited together referred to as the 'Sumit Group'. The consolidation is in view of the similar line of business and common ownership.

Key Rating Drivers

Strengths

Experienced promoter and long track record of operations:

SG, founded and managed by Mr. Mitaram R. Jangid, is a well-established group with a business history spanning more than three decades in real estate development projects. Since 1987, SG has successfully delivered over 57 projects under SWL, including projects with joint ventures in Mumbai and Goa. The group has six ongoing projects at different stages of execution, two are nearing completion (one of them getting completed before the schedule). Sumit Plumeria, located in Ponda, Goa, started in September 2019 under SWL. The total cost of the project is Rs. 17.49 crore, of which Rs. 16.67 crore has been incurred until September 2022. SG has received advances of Rs. 10.61 crore until March 31, 2023.

'Arcenciel' located at Mulund West, Mumbai (Maharashtra), under SWL (joint development with ~61.52 per cent share of SWL and a ~35 per cent share of the land owner). The cost incurred until September 2022 is to the tune of Rs. 68.37 (80 percent) as against the total project cost of Rs. 84.61 crore. Until Q4FY2023, the group has received customer advances of Rs. 79.59 crore.

Sumit One', located at Borivali West, Mumbai (Maharashtra). The project was launched in August 2021 and is in an advanced stage of completion. The total project cost is Rs. 46 crore, of which Rs. 25.48 crore (55 percent) has been incurred until September 2022. SG has received customer advances of Rs. 23.21 crore until March 2023.

'Sumit Atulyam', located in Matunga West, Mumbai (Maharashtra). The project was launched in September 2021. The total project cost is Rs. 105.44 crore, of which Rs. 37.44 (35.50 percent) crore has been incurred until September 2022. The project is expected to be completed before the deadline by almost two to three-quarters. SG has received customer advances of Rs. 18.04 crore until March 2023.

'Sumit Bells, Plot A' project, which is developed by SG and located in Goa, is in its nascent stages. It was launched in September 2021. The total cost of the project is Rs. 9.33 Cr. The group has incurred Rs. 2.30 (24.65) crore until September 2022.

'Sumit Gurukrishna', located in Ville Parle, Mumbai (Maharashtra). The project was launched in August 2022 and is in its early stages of construction. The total project cost is Rs. 102.05 crore, of which, as of September 2022, Rs. 26.95 crore has been incurred. Customer advances received as of March 2023, stand at Rs. 4.94 crore for this project.

Acuite believes the timely execution of projects, extensive management experience, and key locations of the ongoing projects will adequately support the business risk profile of the group.

Timely completion of projects and healthy sales and collection traction:

SG has managed the timely completion of projects in the past. It has an unsold inventory of 7 units as of March 2023, against two of its completed Goa-based projects, Sumit Mount 4' and 'Sumit Mount 5'.

SG has six ongoing projects; of these, two are based out of Goa. Goa-based projects have registered low sales traction; however, it is expected to improve, as one of the projects is nearing completion. Overall, the total cost of these two projects is on the lower side as compared to the overall projects ongoing within the group, thus mitigating the associated demand risk.

The sales and collection traction are healthy for all the Mumbai-based projects. The percentage area sold stands at approximately 44 percent as of September 2022, against the construction cost incurred of 49 percent and collections of 50 percent.

SG also has partly prepaid its term loans in one of the projects through collections from

customers.

Acuite believes the healthy sales and collection traction backed by funding support through debt and promoter infusion will mitigate the execution risk of ongoing projects to some extent.

Weaknesses

Dependency on customer advances and execution risk:

SG is currently executing six projects (two of them nearing completion), for which all of the required clearances have already been obtained. The total cost of these projects is ~Rs.364.93 Cr. Of the total cost, Rs.152.38 Cr (42%) is expected to be incurred through customer advances. The balance will be funded through a mix of debt and equity. As of September 20, 2022, the group had incurred construction costs of Rs. 177.21 crore for ongoing projects against customer advances of Rs.84.70 Cr. The group's ability to execute projects as per schedule is highly dependent on the timely receipt of customer advances, which form a major portion of the total funding requirement of the projects. Any decline in sales and collection traction will adversely impact the timely completion of projects. Also, reduced collections will result in a deterioration in the financial risk profile and liquidity.

Acuite believes SG's ability to execute projects as per the expected schedule, along with maintaining a moderate financial risk profile and healthy sales and collection traction towards ongoing projects, will remain key rating sensitivity

Susceptibility to Real Estate Cyclicity and Regulatory Risks

The real estate industry in India is highly fragmented with most of the real estate developer having a city-specific or region-specific presence. The real estate industry is cyclical in nature of business and subject to price and interest rate risk, among others. Further, the industry is also exposed to regulatory risk, which can impact project execution.

Rating Sensitivities

- Execution of projects as per the timelines considered on the back of good sales and collection traction.
- Deterioration in financial risk profile and liquidity due to reduction in customer advances, pent up inventory and lower than expected average unit realization.

Material Covenants

None

Liquidity Position

Adequate

The liquidity of SG is adequate, marked by a healthy collection from projects of ~ Rs.136.39 crore against a repayment obligation of ~Rs. 63.05 crore as of March 2023. Capex requirements are expected to increase going forward due to its future and ongoing projects partially funded by debt. Out of the total budgeted project cost of Rs.364.03 Cr, 43 percent will be funded through debt. SG has also increased its authorised share capital by Rs.10 crore and has issued 100,00,000 share warrants, convertible into equity shares, to the promoters and specified persons on preferential basis at a premium, leading to planned additional infusion of Rs. 15 crore. As on date, Rs.3.75 crore (25%) has been received by the company and the rest is expected within a period of 18 months from the date of issuance.

Going forward, the group's collections are expected to be in the range of ~Rs.146 Cr and ~Rs.170 Cr against repayment obligations of ~Rs.54 Cr and ~Rs. 35 Cr in FY 2024 and FY 2025, respectively.

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 and collections towards these projects.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	66.15	47.04
PAT	Rs. Cr.	(5.02)	(23.67)
PAT Margin	(%)	(7.59)	(50.32)
Total Debt/Tangible Net Worth	Times	1.45	0.78
PBDIT/Interest	Times	0.62	(1.70)

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

None

Any Other Information

None

Applicable Criteria

- Application Of 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Real Estate Entities: <https://www.acuite.in/view-rating-criteria-63.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Feb 2022	Term Loan	Long Term	8.55	ACUITE BBB- Stable (Reaffirmed)
03 Nov 2020	Term Loan	Long Term	8.55	ACUITE BBB- Stable (Reaffirmed)
	Dropline Overdraft	Long Term	22.35	ACUITE BBB- (Withdrawn)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	8.55	ACUITE BBB Stable Upgraded

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About Acuité Ratings & Research

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