

Press Release

Puranik Builders Limited

December 02, 2020

Rating Downgraded Outlook Revised



Total Facilities Rated*	Rs.1332.00 Cr.
Total Bank Facilities Rated	Rs.1200.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Negative (Downgraded from ACUITE BBB / Stable)
Total Non-Convertible Debenture	Rs.132.00 Cr.
Long Term Rating (Non-Convertible Debenture)	ACUITE BBB- / Outlook: Negative (Downgraded from ACUITE BBB / Stable)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.1200.00 crore bank facilities and the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.132.00 crore Non-Convertible Debentures of Puranik Builders Limited (PBL). The outlook has been revised from '**Stable**' to '**Negative**'.

The rating downgrade is mainly driven by lower than anticipated sales traction in FY2020, slow realization of receivables pending from the sold inventory and slow pace in construction of projects against expectations leading to stress on the cash flows of the group.

The revision in the outlook is based on Acuite's expectation that the liquidity profile is expected to be under stress over the near term mainly due to lower sales traction against the maturing debt obligations. Any further deterioration in the liquidity will impart a further downward bias to the rating.

Mumbai-based, Puranik Builders Limited (PBL) was incorporated in 1990 as a private limited company. Subsequently, the constitution was changed into public limited in May 2018. The company, along with its subsidiaries, is engaged as a real estate developer with a major presence in Mumbai Metropolitan Region (MMR) and Pune Metropolitan Region (PMR).

Analytical Approach

Acuite has considered the consolidated business and financial risk profile of Puranik Builders Limited (PBL) and its subsidiaries namely Puranik Buildcon Private Limited, Puranik Buildwell Private Limited, Fortune Infracreators Private Limited, SYNS Builders Private Limited, Shree Riddhi Siddhi Vinayak Developers Private Limited, NRP Real Estates Private Limited, S.G.P Real Estates Private Limited, SHP Real Estates Private Limited, Y.G.P Realities Private Limited, Ekdant Constructions and Developers Private Limited, Puranik Constructions Private Limited and Swapnadhara Project Private Limited. Annapurna Lifespaces LLP, Sai Pushp Enterprises, Sai Shiva Infra Developers, Kaushalya Real Estates, Puraniks-Supreme Enterprises, Puranik Megatowns, Maitri Builders and Developers and Sai Shraddha Developers together referred to as the 'Puranik Group'. The consolidation is in view of the similar line of business and common ownership. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- **Established presence in MMR and PMR**

The Puranik Group, promoted by Mr. Gopal Puranik and Mr. Ravindra Puranik, is a well-established group having business vintage of around three decades in real estate development projects. The promoters, Mr. Gopal Puranik and Mr. Ravindra Puranik, have more than four decades of experience in the real estate segment. The current Chairman and Managing Director, Mr. Shailesh Puranik has more than 2 decades of experience in the industry. The promoters are equally supported by the second line of management comprising Mr. Jitendra Mehta (CFO), Mr. Amitabh Kumar (Senior VP), who are well experienced in the industry. The group started its operations from Thane and slowly increased its presence in Pune, Lonavla

and Neral. The group has focus and experience in the mid-income affordable housing segment. Over the years, the group has developed a strong brand name 'Puranik' in MMR and PMR, especially in the affordable housing segment.

Acuité believes that the group will continue to benefit from the promoter's established presence in the industry and its strong brand name over the medium term.

Since inception, the group has successfully delivered over 29 projects with a saleable area of over 45 Lakh Square Feet (LSF). The group is currently developing 6 projects in Thane viz. Puranik City Reserva, Rumah Bali, Grand Central, Puranik Hometown, Aarambh, Tokyo Bay; 3 projects in Pune viz. Aldea Espanola, Abitante, Aldea Anexo; 1 project in Lonavala, i.e. Puranik Sayama and 1 project in Neral, i.e. Puraniks City – Neral with total saleable area of over 140 LSF. The group has received necessary approvals for all of its ongoing projects.

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

Weaknesses

• High dependence on customer advances, salability and execution risk

The group is currently executing 11 projects for which all of required clearances have already been obtained. The total cost of these projects is ~Rs.7,163 crore of which ~35 per cent cost has been incurred as on 30 September 2020. Out of the total project cost ~75 per cent is funded from customer advances and ~25 per cent through external debt.

Around 70 per cent of the group's projects are located in Thane, thereby making it exposed to vagaries of Thane real estate market. The subdued market scenario in the real estate sector in Thane region in past two years has affected the cash flows from the existing projects leading to higher dependence on the refinancing of the external bank debt. This was further impacted due to nationwide lockdown restrictions on account of Covid-19 pandemic leading to shutting down of construction sites, lack of labour availability for first 4-5 months of FY2021. The project's construction resumed from August onwards; however, the sales traction towards the projects was significantly hampered. The scheduled debt repayment obligations for term loans was around Rs.205.83 crore for FY2021, however, the group had availed six month moratorium under the RBI guidelines from its lenders, i.e. from March to August, 2020. Further, the group is in talks with its lenders for a shift of DCCO for the projects for altering the repayment terms. Two lender have given their consent; however, the stance of other lenders is yet to be ascertained. Acuité believes that timeliness of such measures or any improvement in the demand scenario resulting in healthy cash flow visibility remains a key rating sensitivity factor.

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, Acuité believes that the group's ability to execute the projects as per revised schedule and while achieving sales traction towards these projects will also be a 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 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. The current market scenario of COVID-19 has impacted the completion of on-going projects as project sites were shut, migration of labor back to their hometowns and unavailability of raw material.

Puranik Group is exposed to the risk of volatile prices on account of frequent demand supply mismatches and current position of 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 PBL, thereby impacting its operating capabilities.

Rating Sensitivities

- Realization of customer advances pending from sold inventory in time
- Lower than expected sales traction leading to increased dependence on refinancing of debt will have an negative bias on the rating

Material Covenants

None

Liquidity position: Stretched

The group has stretched liquidity position marked by the lower than anticipated customer advances to its maturing debt obligations. The group is mainly dependent on customer advances for its project funding and debt repayment. The group has debt repayment obligations for its term loans in the range of Rs.150-200 crore for FY2021 and FY2022. The group is in talks with its lenders for shifting of DCCO due to impact of Covid-19 of the pace of project construction. Acuite believes that the stance of the lenders towards the shifting of DCCO or the ability of the group to refinance its debt obligations will be a key rating sensitivity.

Outlook: Negative

Acuite believes that the group's credit profile will be impacted by delays in project construction and lower sales traction towards its projects leading to stretch in the group's liquidity position. The rating may be downgraded in case of continued pressure on the cash flows or the group is unable to refinance its debt obligations in a timely manner. The outlook may be revised to 'Stable' in case of improvement in the sales traction towards its projects or the company is able to refinance its debt obligations in a timely manner.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	716.26	507.73
PAT	Rs. Cr.	71.27	50.72
PAT Margin	(%)	9.95	9.99
Total Debt/Tangible Net Worth	Times	3.84	4.05
PBDIT/Interest	Times	1.87	1.83

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

None

Any other information

Acuite is yet to receive the provisional/ audited financials for FY2020.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Real Estate Entities - <https://www.acuite.in/view-rating-criteria-63.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
21-May-2020	Term Loan	Long Term	280.00	ACUITE BBB / Stable (Downgraded)
	Term Loan	Long Term	157.00	ACUITE BBB / Stable (Downgraded)
	Term Loan	Long Term	210.00	ACUITE BBB / Stable (Downgraded)
	Dropline Overdraft	Long Term	18.75	ACUITE BBB / Stable (Downgraded)
	Term Loan	Long Term	50.00	ACUITE BBB / Stable (Downgraded)
	Term Loan	Long Term	351.09	ACUITE BBB / Stable (Downgraded)
	Secured Overdraft	Long Term	20.00	ACUITE BBB / Stable (Downgraded)
	Proposed Bank Facility	Long Term	113.16	ACUITE BBB / Stable

				(Downgraded)
	Non-Convertible Debentures	Long Term	132.00	ACUITE BBB / Stable (Downgraded)
21-Nov-2019	Term Loan	Long Term	280.00	ACUITE BBB+ / Stable (Assigned)
	Term Loan	Long Term	157.00	ACUITE BBB+ / Stable (Assigned)
	Term Loan	Long Term	210.00	ACUITE BBB+ / Stable (Assigned)
	Dropline Overdraft	Long Term	18.75	ACUITE BBB+ / Stable (Assigned)
	Term Loan	Long Term	50.00	ACUITE BBB+ / Stable (Assigned)
	Term Loan	Long Term	351.09	ACUITE BBB+ / Stable (Assigned)
	Secured Overdraft	Long Term	20.00	ACUITE BBB+ / Stable (Assigned)
	Proposed Bank Facility	Long Term	113.16	ACUITE BBB+ / Stable (Assigned)
	Non-Convertible Debentures	Long Term	132.00	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. Crore)	Ratings/Outlook
Term loans	July 2017	13.75%	June 2023	280.00	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/ Stable)
Term loans	August 2018	14.15%	August 2023	157.00	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/ Stable)
Term loans	August 2018	14.15%	August 2023	210.00	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/ Stable)
Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	18.75	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/ Stable)
Term loans	June 2019	11.65%	June 2023	50.00	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/ Stable)
Term loans	December 2018	14%	November 2023	351.09	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/ Stable)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/ Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	113.16	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/ Stable)

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
INE842O07247 INE842O07254 INE842O07262 INE842O07270 INE842O07288 INE842O07296 INE842O07304 INE842O07312 INE842O07320	Non-Convertible Debentures	28-Oct-16 17-Nov-16 16-Jan-17 23-Jan-17 27-Sep-17 07-Nov-17 12-Dec-17 17-Jan-18 10-Sep-18	13.25%	30-Apr-2023	132.00	ACUITE BBB- /Negative (Downgraded from ACUITE BBB/ Stable)

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About Acuité Ratings & Research:

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