

Press Release

Pacifica Builders Private Limited

January 30, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 95.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 95.00 crore bank facilities of PACIFICA BUILDERS PRIVATE LIMITED. The outlook is '**Stable**'.

Incorporated in 2005 Pacifica Builders Private Limited (PBPL), formerly known as Pacifica (Chennai Project) Infrastructure Company Private Limited, is a wholly owned subsidiary of PAC Paddur Limited, Cyprus (PPL). PPL is an investment arm of Pacifica Companies, LLC, USA. The Pacifica group ventured into India during 2004-05 to undertake real estate development project. All the projects are undertaken through separate SPVs. PBPL was established to develop an 82-Acres integrated township in Padur, OMR, Chennai. The township project is executed in multiple phases whereby, Aurum phase-I (Happiness Tower) has been completed and Aurum Phase-II (Pride Tower) is under construction.

Analytical Approach

Acuité has considered standalone business and financial risk profile of the company to arrive at the rating. Further, the cash flow from Aurum Villa (headed under another SPV, M/s Sylvanus Builders and Developers Limited) is combined with cash flow of Aurum Phase-I and Aurum Phase-II for repayment of term loan raised for funding the construction of Phase-II. Acuité has also considered presence of waterfall mechanism and DSRA equivalent to interest obligation of one quarter while arriving at the final rating.

Key Rating Drivers

Strengths

• Strong track record in real estate sector and resourceful promoters

PBPL is a part of US-based Pacifica group promoted by Mr. Ashok Israni and his family members. The group have more than four decades of experience and has strong foothold in the real estate sector in American and Mexican real estate market. The group ventured in Indian market in FY 2004-05 and is headed by Mr. Rakesh Israni. Over the time, the Pacifica group has executed more than 10 projects (including commercial, residential and hospitality segment) in the Indian market with ~6.41 percent of unsold inventory as on October 31, 2019.

Further, PPL have infused Rs.198.04 core in the form of compulsorily convertible debentures (CCDs) for land acquisitions, the resourcefulness of promoters is also exhibited through fund infusions as and when required by PBPL.

Acuité believes that the promoters' extensive experience and brand presence along with strong financial backing from promoter group will continue to support the business risk profile over long term.

• Above average booking and customer advances

The project, Aurum Phase-I was completed in FY2018 with nil debt outstanding. The project reports booking of ~97 percent till October 2019 (with ~6 percent booking over last 12 months) whereby, Rs.31.80 crore of customer advances is yet to be received.

The project Aurum Villa is at advance stage of completion (~94 percent completion till October 2019). This project has also recorded healthy booking levels of about 94 percent till October 2019 (with ~13 percent booking over last 12 months). Customer advances to the tune of Rs.26.71 crore is yet to be received on sold flats. Further, this project also has nil debt outstanding as on date.

The project Aurum phase-II is at moderate stage of construction with 60 percent completion till October 2019. This project has recorded more than 37 percent booking till October 2019 (with ~6 percent booking over last 12 months) and is yet to receive ~Rs.45.00 crore on sold flats. The sales are

modest in this project owing to moderate stage of construction.

Thus, the company has adequate funding support from customer advances to support the construction of ongoing project and reduces reliance on external debt. However, ramp up in the booking levels of Aurum Phase-I will remain key monitorable.

Weaknesses

• 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. Cyclicity in the real estate sector could result in fluctuations in cash inflow and volatility in sales. In contrast, cash outflow, such as for debt servicing, is relatively fixed. The residential real estate sector has remained constrained by subdued demand and bearish consumer sentiment over the past few years. The Real Estate sector is under stress on account of large amounts of unsold inventory and high borrowing costs. Any decline in demand could adversely impact sales velocity and collections and, thus, weaken the financial risk profile.

Liquidity position: Adequate

The company has adequate liquidity position marked by the healthy customer advances receivable from sold flats. The project is ~33.00 percent funded by external borrowing and is mainly dependent on customer advances for its project funding and debt repayment. The total debt raised is Rs.95.00 crore out of which Rs.61.50 crore (i.e.~65 percent) has been drawn till October 2019. The remaining limit cushions liquidity and project funding requirement for Aurum Phase-II project. Further, the company has ~Rs.103.00 crore of combined customer advances receivable (to be received from sold flats) to complete the pending project cost of ~Rs.133.00 crore, indicating adequate liquidity cushion. The company has upcoming debt repayment obligations to the tune of Rs.28.06 crore for FY2020-21 and Rs.28.89 crore for FY2021-22. The company has recently refinanced Rs.57.00 crore in July 2019, which demonstrates refinancing abilities of the company.

About the project:

At present, company is developing Aurum Township at Padur, OMR road, Chennai spread across 82 acres of land. The township is build in multiple phases and till date the company has completed the construction of Phase-I consisting of 662 flats (salable area of 9,45,300 sq.ft.) in FY2018 and has recorded more than 97 per cent in sales. The project is debt free as on date and has received customer advances of ~88 per cent of the total expected sale proceeds from the project and ~Rs.32.00 crore is to be received on these sold flats.

The construction of Phase-II is ongoing which is to build 646 flats (salable area 8,34,252 sq.ft.) with total project cost of ~Rs.290.00 crore. The company has incurred ~60% of project cost till October 2019 and has booked ~37 percent in sales accounting to ~35 per cent of total expected sales proceeds from the project out of Rs.45.10 crore is yet to be received on sold flats.

The cash flows from Aurum Villa project (consisting of 374 units) headed under another SPV namely, M/s Sylvanus Builders and Developers Limited is also tied-up for the repayment of term loan taken under PBPL. This project is debt free and has completed ~95 percent of construction till October 2019. The company has recorded ~94 percent of sales and has customer advance receivable of Rs.26.71 crore as on October 2019.

Rating Sensitivities

- Timely collection of customer advances and execution of the project.
- Salability of remaining units in Aurum Villa, Phase-I & II amidst increasing supply and intense competition in Old Mahabalipuram Road (OMR), Chennai.

Outlook: Stable

Acuite believes that PBPL will maintain its credit risk profile backed by cash accruals from the healthy bookings registered in Pacifica Aurum Phase-I & Aurum Villa along with moderate bookings witnessed in Aurum Phase-II and strong financial support of the parent entity. The outlook may be revised to 'Positive' if the company generates steady cash flows from customer advances. Conversely, the outlook may be revised to 'Negative' in case of stretched liquidity arising from delays in project execution or collection of customer advances.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	31.94	34.66
PAT	Rs. Cr.	0.51	0.44
PAT Margin	(%)	1.59	1.27
Total Debt/Tangible Net Worth	Times	0.36	0.32
PBDIT/Interest	Times	1.10	1.11

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Real Estate Entities - <https://www.acuite.in/view-rating-criteria-63.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
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	57.00	ACUITE BBB / Stable
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE BBB / Stable

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About Acuité Ratings & Research:

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