

Press Release

Pacifica Builders Private Limited

June 22, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	95.00	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	95.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.95.00 Cr. bank facilities of Pacifica Builders Private Limited (PBPL). The outlook is 'Stable'.

The rating reaffirmation reflects promoters' extensive experience in the real estate industry, the parent company's strong profile, and the assets' prime location. Further, the rating favourably considers achievement of 77 percent physical progress, which helps to mitigate execution risks. The rating is partially constrained by, PBPL's exposure to moderate execution risks is a consideration in the ratings, as 20% of the cost is yet to be incurred. Due to overall sluggishness in demand caused by the Covid-19 pandemic, the exposure to market risk resulted in booking of about 35-40%. Furthermore, any risk of cost/time overruns or delays in project monetization may result in cash flow mismatches over the medium term.

About the Company

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 projects. All the projects are undertaken through separate SPVs. At present, PBPL is developing Aurum Township at Padur, OMR road, Chennai, which is spread across 87 acres of land. The township is being built in multiple phases and the company has completed the construction of Phase – I (Happiness Tower) consisting of 662 flats (saleable area of 9, 45,300 sq. ft.) with a total project cost of ~Rs.274.00 Cr. and total sale value of ~Rs.372.00 Cr. The construction of Phase – II (Pride Tower) is ongoing which consists of 646 flats (saleable area 8, 34,252 sq. ft.) with a total project cost of ~Rs.306.00 Cr. and total sale value of ~Rs.361.00 Cr. The cash flows from Aurum Villa project consisting of 374 units (saleable area 8, 77,745 sq. ft.) with a total project cost of ~Rs.232.00 Cr. and total sale value of ~Rs.362 Cr.

About the Group

The Pacifica Companies, LLC headquartered in San Diego, California, U.S.A was founded in 1978 by Mr. Ashok Israni. The U.S operations are looked after by Mr. Ashok Israni and Mr. Deepak Israni, whereas Mr. Rakesh Israni is responsible for the group's Indian operations. The Pacifica group has over four decades of experience in the field of construction and real estate. The group is one of the largest owner and operators of hotels in the United States, with the largest being a 600-room hotel at the Los Angeles International Airport. The group's hotel portfolio currently consists of owning and operating 42 hotels and resort assets (~6211 rooms) in five states across the U.S., Partnering with strong brands like Marriott International, Intercontinental Hotel Group, and Hilton Hotels and Resorts, and others Pacifica Host Inc., i.e., the hotel management arm of Pacifica Companies. The completed projects by the group comprises of residential townships, hotel projects, bungalows, villas, master planned communities, office and industrial buildings, retail shopping centres, senior housing apartments, single tenant leases, multifamily for rent and sale projects and single-family communities throughout the U.S., Mexico and India. In India, the group is operating majorly in Ahmedabad, Vadodara, Pune, Delhi NCR, Chennai, Hyderabad and Bengaluru. The group as a whole has completed more than 7 million square feet of residential and commercial projects and plans to add further 110 million square feet on-going projects under commercial and residential space.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of the company to arrive at the rating.

Key Rating Drivers

Strengths

Extensive promoters' experience with long and successful track record in real estate market and resourceful promoters

PBPL is a part of U.S. 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 the American and Mexican real estate market. The group ventured in Indian market in FY2004-05 and is headed by Mr. Rakesh Israni. Since then, the Pacifica group has executed more than 10 projects in the commercial, residential and hospitality segment in the Indian market. Further, PPL has infused Rs.198.04 Cr 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.

Advance level of progress and low execution and funding Risk

The construction of "Pride Towers" started in March 2017 and is expected to be completed by December 2022. The total developers' saleable area of the aforesaid project is 8.34 lakh square feet with a total project cost of ~Rs.306.00 Cr. It is expected to be funded through Rs.38 Cr (~12 percent) of debt and promoter contribution 60 Cr (~20 percent) and remaining Rs.208 Cr (~68 percent) through customer advances. As on March 31, 2022, PBPL incurred a total cost of about Rs. ~236 Cr (~37 percent) as compared to the total project cost of ~Rs. 306 Cr. PBPL has completed around 77 percent of construction as on March 31, 2022 against which it has already received bookings of 40 percent and received customer advances of 37 percent as a percentage to total saleable value. The promoters have brought in Rs.60 Cr (~100 percent of their contribution) and sanctioned debt has been drawn completely and received customer's advances of Rs.89.25 Cr (~ 29 percent of their contribution) as of March 2022. As on March 31, 2022, the Company has sold 3.28 lakh square feet (sft). Out of 8.34 lakh square feet (sft), this is ~39 per cent of total space. Acuité believes that adequate funds in place and adequate advances received from customers leaves a larger scope for financial flexibility and charging premium for sale of the unsold space.

Healthy financial risk profile

PBPL has healthy financial risk profile supported by strong net worth, comfortable gearing (debt to equity) & total outside liabilities to total net worth (TOL/TNW) and moderate coverage indicators. The tangible net worth of PBPL remained strong at Rs.209.82 Cr as on March 31, 2022 (Provisional) supported by compulsory convertible debentures (CCD) of Rs.198.04 crore which is expected to stay in the business till the repayment of all the debt obligations loans availed by PBPL. The Gearing (Debt to Equity) and TOL/TNW (Total outside Liabilities to Tangible Net Worth) stood healthy at 0.58 times and 0.97 times as on March 31, 2022 (Provisional) as against 0.49 times and 0.92 times as on March 31, 2021. The coverage indicators remain moderate with Interest Coverage Ratio (ICR) at 1.04 times in FY2022 (Provisional) and FY2021 and Debt Service Coverage Ratio (DSCR) at 0.41 times in FY2020 as against 0.40 times in FY2019. Acuité believes that financial risk profile of the company is expected to remain healthy over the medium term backed by healthy cash accruals and no plans of significant debt funded capex.

Weaknesses

Exposure to risks and cyclical in India's real estate sector

The real estate sector is cyclical and marked by volatile prices and a highly fragmented market structure because of large number of regional players. In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which in turn render the company's sales vulnerable to any downturn in demand and competition within the region from various established developers. The project is expected to be funded largely through customer advances, hence, adequate sales velocity is critical for timely execution of the project.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Realization of customer advances pending from sold inventory in time
- Lower than expected sales traction leading to increased dependence on debt
- Sharp decline in cash flow, by slackened salability of project or delays in project execution

Material covenants

None

Liquidity position: Adequate

PBPL has adequate liquidity position marked by the moderate customer advances to its maturing debt obligations. Liquidity is supported by good salability as well as collections in the ongoing project. PBPL have adequate liquidity which is to be supported by way of a secured payment mechanism with Escrow account, DSRA for 3 months of interest + principal and DSCR > 2 times till project completion. PBPL is mainly dependent on customer advances for its project funding and debt repayment. The total debt raised is Rs.95.00 Cr of which has been completely drawn till March 31, 2022. Further, the company has received the ~Rs.90 Cr. customer advances and Rs.45 Cr to be received from sold flats) to complete the pending project cost of ~Rs.70 Cr., indicating adequate liquidity cushion. The company has upcoming debt repayment obligations to the tune of Rs.22.61 Cr. for FY2022-23 and Rs.17.60 Cr. for FY2023-24. Acuité expects PBPL is expected to continue generating good surplus cashflows from its unsold inventory in the near to medium term and adequate accruals, to be sufficient to meet its repayment obligations as well as incremental construction costs.

Outlook: Stable

Acuité believes that PBPL will maintain its 'Stable' credit risk profile over the medium term supported by adequate cash accruals from the bookings and strong financial support of the parent entity. The outlook may be revised to 'Positive' if the company achieves significantly higher than expected customer bookings and advances, and achieves project execution as per schedule. Conversely, the outlook may be revised to 'Negative' if the company achieves significantly lower than expected customer booking and advances, increase in unsold inventory or delay in project execution resulting in stretched liquidity position.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	11.03	13.64
PAT	Rs. Cr.	0.16	0.16
PAT Margin	(%)	1.42	1.17
Total Debt/Tangible Net Worth	Times	0.58	0.49
PBDIT/Interest	Times	1.04	1.04

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Apr 2021	Working Capital Term Loan	Long Term	57.00	ACUITE BBB Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	38.00	ACUITE BBB Stable (Reaffirmed)
30 Jan 2020	Working Capital Term Loan	Long Term	57.00	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	38.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Investments Limited	Not Applicable	Working Capital Term Loan	01-06-2019	Not available	Not available	57.00	ACUITE BBB Stable Reaffirmed
Kotak Mahindra Investments Limited	Not Applicable	Working Capital Term Loan	01-06-2019	13.75	01-06-2024	38.00	ACUITE BBB Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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