



Press Release
PACIFICA BUILDERS PRIVATE LIMITED
September 18, 2023
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	-	-

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**'.

Rationale for rating reaffirmation

The rating reaffirmation is primarily on account of stable sales collection witnessed by the company from its ongoing and completed projects during the review period. The company reported total sales of Rs.56 Cr. in FY2023 and Rs.14 Cr in Q1FY2024. The rating also draws comfort from the extensive experience of the promoters in the real estate segment, strong business risk profile of the parent company and prime location of the projects. The rating is however constrained on account of moderate execution risk in PBPL's ongoing project of Pride Towers D1 in Phase II of the Aurum Township marked by its extended timeline of completion and sales traction which is expected to commence post completion of the project. Going forward, the sales collections and timely completion of company's ongoing projects will remain key rating sensitivity factors.

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 Padur 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, over a total land area of ~124 acres, out of which ~87 acres of land is used for developing two residential towers by PBPL and the remaining ~37 acres of land is used for developing residential villas by another SPV Sylvanus Builders and Developers Pvt. Ltd. (SBDPL).

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. Phase II (Pride Tower) comprises of three towers – Tower A1, B1 and D1 which consists of total 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.384.00 Cr. The company has already completed the construction of Tower A1 and B1 in June 2022 with an unsold inventory of ~Rs.50 Cr as of March 31, 2023 whereas the construction of Tower D1 is ongoing with an unsold inventory of ~Rs.150 Cr as of March 31, 2023. The project is further expected to be completed by December 2023 as per the extension provided by RERA.

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 PBPL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced and resourceful management with an established presence in the real estate market

PBPL is a part of U.S. based Pacifica group promoted by Mr. Ashok Israni and family. The group has more than four decades of experience and a strong foothold in the real estate sector especially in the American and Mexican real estate market. The group ventured into 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 Cr in the form of compulsorily convertible debentures (CCDs) for land acquisitions. Furthermore, the resourcefulness of promoters is also exhibited through fund infusions as and when required by PBPL.

Acuité believes that PBPL will continue to benefit through their experienced and resourceful management with an established track record in the real estate market.

Advance level of progress with low funding risk

The construction of "Pride Towers – Phase II" started in March 2017 and is further expected to be completed by December 2023. The total developer 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 of March 31, 2023, PBPL incurred a total cost of about Rs. ~265 Cr (~87 percent) as against the total project cost of ~Rs. 306 Cr. PBPL has completed around ~87 percent of construction as of March 31, 2023 against which it has already received bookings of ~47 percent and received customer advances of ~41 percent as a percentage to total saleable value. The promoters have brought in Rs.60 Cr (~100 percent of their contribution) and sanctioned debt drawn completely and received customer's advances of ~Rs.157 Cr (~76 percent of their contribution) as of March 31, 2023. As of March 31, 2023, the company has sold area of 4.30 lakh square feet. out of 8.34 lakh square feet, which is ~52 percent of the total space.

Healthy financial risk profile

Financial risk profile of PBPL is healthy marked by healthy network, low gearing and comfortable debt protection metrics. The tangible network of the company stood healthy at Rs.211 Cr as on 31 March, 2023 (Provisional) supported by compulsory convertible

debentures (CCD) of Rs.198 crore which is expected to remain infused into the business till the repayment of the loans availed by PBPL. The gearing (debt-equity) stood at 0.50 times as on 31 March, 2023 (Provisional) as against 0.59 times as on 31 March, 2022. The total debt of Rs.106 Cr as on 31 March, 2023 (Provisional) consists of long term bank borrowings of Rs.20 Cr, and unsecured loans from other group entities of Rs.86 Cr. The interest coverage ratio and DSCR stood at 1.25 times and 0.20 times for FY2023 (Provisional) as against 1.04 times and 0.16 times for FY2022. The Total outside liabilities to Tangible net worth stood at 0.93 times for FY2023 (Provisional) as against 0.98 times for FY2022.

Acuité believes that financial risk profile of PBPL is expected to remain healthy over the medium term backed by healthy cash accruals and no plans of significant debt funded capex.

Weaknesses

Moderate project execution risk

The construction of PBPL's Pride Towers D1 in Phase II of the Aurum Township is ongoing and is expected to be completed by December 2023 as per the further extension provided by RERA against the previous extension of December 2022. All the units of the said project are expected to be sold after its completion. The value of unsold inventory as of March 31, 2023 of the said project is ~Rs.150 Cr.

Acuité believes that sales collection and timely completion of the said project without any significant delays will remain a key rating sensitivity factor.

Exposure to risks and cyclicity 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.

Rating Sensitivities

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

All Covenants

Not applicable

Liquidity Position - Adequate

PBPL has adequate liquidity position marked by sufficient customer advances to service its maturing debt obligations. Liquidity is supported by good saleability as well as collections in the ongoing project and further supported by the way of 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, which has been completely drawn by the company. Further, the company has already received ~Rs.157 Cr of customer advances and ~Rs.24 Cr pending to be received from the sold flats to further complete the pending project cost of ~Rs.41 Cr, thereby indicating adequate liquidity cushion.

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 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	48.09	9.93
PAT	Rs. Cr.	0.85	0.16
PAT Margin	(%)	1.76	1.64
Total Debt/Tangible Net Worth	Times	0.50	0.59
PBDIT/Interest	Times	1.25	1.04

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

Not applicable

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite'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
22 Jun 2022	Working Capital Term Loan	Long Term	38.00	ACUITE BBB Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	57.00	ACUITE BBB Stable (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Investments Limited	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	57.00	ACUITE BBB Stable Reaffirmed
Kotak Mahindra Investments Limited	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	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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