

Press Release

Essen Realtors

March 05, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 40.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs. 40.00 crore bank facilities of Essen Realtors (ER). The outlook is '**Stable**'.

ER is a Pune based firm established in 2002 by Mr. Satish Agrawal, Mr. Nitin Agrawal and others. The firm is engaged in development of residential and commercial projects. ER has successfully completed more than 6 projects in the past since 2006. Currently, the firm has one ongoing project i.e. Aishwaryam Comfort Gold at Akurdi (Pune) with total saleable area of 2.04 lakh square feet to construct 217 units. The project includes 204 residential flats comprising of two BHK and three BHK and 13 shops. The total project cost is Rs.83.65 crore and the total sale proceeds expected is around Rs.159 crore.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the ER to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record and experienced promoter:**

The promoters of the firm Mr. Satish Agrawal, Mr. Nitin Agrawal and others collectively possess around two decades of experience in the real estate industry. They have successfully developed six projects including residential and commercial projects located in & around Pune. Acuité believes that the promoter's established track record of successful project execution and financial backing from promoter group will continue to support its business risk profile over near to medium term.

Weaknesses

- **Project execution risk:**

ER is currently developing a residential and commercial project –'Aishwaryam Comfort- Gold' located at Akurdi (Pune). The total project cost is Rs.83.65 crore which is expected to be completed on 1st February, 2021. The current project cost incurred is Rs.27 crore i.e. ~32 percent of total project cost. Out of the total funding requirement of Rs.83.65 crore, promoters infused Rs.16 crore as on 31st January, 2020. Also, the firm has sanctioned term loan of Rs.35.00 crore, of which Rs.10.00 crore is disbursed till 31st January, 2020 and out of required customer advances of Rs.27.65 crore, the firm has already received Rs.1.20 crore as on 31st January, 2020. The project Acuité believes that any delays in execution of the project leading to cost overrun will remain a key rating sensitivity factor.

- **Low Booking Levels**

The project 'Aishwaryam Comfort- Gold' commenced from the month of May 2019 is expected to be completed by February 2021. The firm has incurred ~32 per cent cost as on January, 2020. The traction in receipt of advances is low as marked by current booking level of only ~8 percent i.e. 18 units out of 217. The customer advances received is Rs.1.20 crore as on January 2020. Acuité believes that the firm's ability to achieve sales traction and adequate customer advances to repay debt obligation towards this project will be key monitoring indicator.

• Inherent cyclical and stiff competition in construction Sector:

The real estate industry 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 nature of business (drop in property prices) and interest rate risk, among others that could affect the operations of the firm. Further, the firm faces competition from the other ongoing and new projects in the vicinity. The project 'Aishwaryam Comfort- Gold', situated in Akurdi, is one of the fastest growing suburbs in Pune. It has several residential as well as commercial projects under construction.

Rating Sensitivities

- Delays in execution of the project leading to cost overrun
- Significant receipt of customer advances

Material Covenants

None

Outlook: Stable

Acuité believes that ER will maintain 'Stable' business risk profile in the medium term on the back of experienced management and established presence in the real estate industry. The outlook may be revised to 'Positive' if the firm generates steady cash flows from customer advances. Conversely, the outlook may be revised to 'Negative' in case of stretch in the firm's liquidity position on account of delays in project execution or collection of booking money.

About the Rated Entity – Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	2.84	12.64
PAT	Rs. Cr.	0.70	8.31
PAT Margin	(%)	24.65	65.78
Total Debt/Tangible Net Worth	Times	1.59	1.57
PBDIT/Interest	Times	1.56	6.06

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition – <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments – <https://www.smerra.in/criteria-fin-ratios.htm>
- Real Estate entity- <https://www.acuite.in/view-rating-criteria-41.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

None

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	1-09-2019	Not Applicable	31-08-2024	35.00	ACUITE B+ / Stable (Assigned)
Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B+ / Stable (Assigned)

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About Acuité Ratings & Research:

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