

Press Release

Riddhi Siddhi Construction

August 25, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.95.00 Cr.
Long Term Rating	ACUITE B/Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B**' (read as **ACUITE B**) to the Rs. 95.00 crore bank facilities Riddhi Siddhi Construction (RSC). The outlook is '**Stable**'.

The rating reflects the extensive experience of its promoters in the real estate industry in Mumbai (Maharashtra). The project is supported by moderate bookings and customer advances, and promoters funding. These strengths are mitigated by salability risk and susceptibility to cyclical in the real estate industry.

About the rated entity

RSC is a partnership firm based in Mumbai and established in the year 2004. RSC is part of the Ashapura & Options (A&O) group. The firm was established as a special purpose vehicle (SPV) for undertaking slum rehabilitation. It is currently developing a slum rehabilitation scheme in Malad (F Residencies). The firm has also tied up with F TV for branding of its projects. The project consists of 2 sale buildings, 3 rehab residential buildings, 1 school rehab building and 1 commercial rehab building.

Analytical Approach

For arriving at the ratings, Acuité has considered the standalone financial and business risk profile of RSC.

Key Rating Drivers

Strengths

Established track record of operation and experienced management

RSC established in 2004 is part of the A&O group. The group is promoted by Chetan Bhanushali and Mr. Praveen Girish Chamaria, who have over two decades of experience in real estate development. The group came into existence in 2008-09 as Ashapura Developers and Options Developers came together with the purpose of providing affordable housing to masses vide undertaking different slum rehabilitation & re-development projects. A&O group has completed 31 commercial and residential projects together as well on a standalone basis with ~55 lakh square feet area sold.

Acuité believes that the groups established track record of successful project execution and brand presence will help the firm along with its business risk profile over medium term.

Weaknesses

Salability risk

'F-Residencies' project which is developed by RSC is 91 percent complete wherein of the project cost is Rs. 579.88 crore, and phase 1 comprises of Rs.408.71 crore of the total costs. The project consists of two sale buildings and 5 rehab buildings. The firm has completed three out of the five rehabilitation buildings. The first sale building is expected to be completed by March 2022 which is extended from earlier timelines of July 2021 and then January 2022. The construction for the second sale building is yet to commence. RSC plans to commence the construction of second sale building by October 2021.

(earlier July 2020). Considering, the extent of execution and the tepid response received so far, the progress of execution of both the sale buildings is likely to remain a key rating sensitivity factor over the medium term. The traction in receipt of customer advances is dependent on project completion. The firm's ability to execute both the projects as per schedule is highly dependent on timely receipt of regulatory approvals along with customer advances, which forms a part of the total funding requirement of the projects along with promoter's contribution.

Susceptibility to Real Estate cyclical and regulatory risks and impact of COVID -19

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. Moreover, outbreak of Covid-19 in 2020 has sharply hurt RSC's performance in FY21. Delay in construction due to labour shortage and migration, weaker consumer sentiment, etc. have taken a toll on the firm's operations. The firm witnessed decline in new bookings.

The Real Estate sector overall 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 JLPPL, thereby impacting its operating capabilities.

Rating Sensitivities

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

Material Covenants

None

Liquidity Position: Moderate

The Liquidity profile of the firm stood moderate marked by net cash accruals of Rs.0.67 crore – Rs.1.49 crore during FY19-FY21 (prov.). The sale proceeds from already constructed area and promoters funds remains the main source of cash flows for the firm for repayment of debt obligation falling majorly due in FY22 & FY23. Moreover, sharp impact of the pandemic on the real estate sector has hurt its liquidity position, thus generation of cash accruals to suffice the repayment obligations remains a key factor.

Outlook: Stable

Acuité believes that RSC will maintain a stable outlook over medium term on account of established track record and expected increase in the demand for the affordable housing projects. The outlook may be revised to positive in case the company achieves significantly higher than expected customer advances and achieves project execution as per schedule. Conversely, the outlook may be revised to Negative in case of slower than expected customer advances or in case of delay in project execution.

About the Rated Entity - Key Financials

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	82.59	100.54
PAT	Rs. Cr.	1.49	1.93
PAT Margin	(%)	1.80	1.92
Total Debt/Tangible Net Worth	Times	0.92	1.27
PBDIT/Interest	Times	-	-

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>
- Real Estate Entities- <https://www.acuite.in/view-rating-criteria-63.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
28-May-2020	Term Loan	Long Term	50.00	ACUITE B/Stable (Assigned)
	Proposed Term Loan	Long Term	45.00	ACUITE B/Stable (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank of Baroda	Term Loan	December 2020	11.50	March 2023	50.00	ACUITE B/Stable (Reaffirmed)
-	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE B/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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