

Press Release

Aaditri Housing Private Limited

August 04, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE Triple BBB minus**) on the Rs. 50.00 crore bank facilities of Aaditri Housing Private Limited. The outlook is '**Stable**'.

Incorporated in August 2016, AHPL is a Guntur (Andhra Pradesh) based residential real estate developer promoted by Mr. Chandra Mouli Yarra. AHPL is into the development of real estate projects in Andhra Pradesh. AHPL is presently developing four projects - two in Guntur (Aaditri Exotica and Aaditri Evoca) and two in Tirupati (Aaditri Empress and Aaditri Haricharanam) with a cumulative saleable area of 12.70 lakh square feet to construct 798 flats.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced promoters and strong brand presence in the Andhra Pradesh region

AHPL is promoted and managed by Mr. Chandra Mouli Yarra, Managing director and Mr. Nageswara Rao Aluri, Chairman. Mr. Chandra Mouli Yarra has a decade of experience as a real estate developer through projects executed under AHPL's associate entities like 'Aaditri Developers private limited', 'CMD properties Private Limited' which are also into real estate business since 2010. The promoter's association with Tejas Constructions (engaged in civil construction activities mainly constructing government buildings) as a managing director since 2010 and being part of Margdarshi Chits Pvt Ltd for more than 25 years is an accompaniment to his industrial experience. Mr. Nageswara Rao Aluri, Chairman, hailing from Guntur, started his career as a civil contractor for roads and buildings department with an aim to become a real estate entrepreneur; showcasing two decades of experience in the civil construction segment. The promoters have successfully completed RERA approved 11 projects in the past through its associate entities covering a cumulative area of 3.41 lakh square feet with a project cost of Rs.127 crores. Alongside, the brand equity of 'AADITRI' was well ingested in the AP and Hyderabad (Telangana) region. Succeeding in past projects, AHPL was incorporated with the intent of executing sizeable projects. This is unveiled through the execution of its 4 ongoing projects which are 3.7x bigger the 11 completed projects in terms of area covered and 2.7x higher in terms of total project cost incurred. AHPL, with its strategic positioning has created brand equity and is now among the top ten real estate developers in Guntur, Andhra Pradesh. Acuité believes that the promoters have demonstrated strong execution capabilities with a reputation for quality and timely completion. Promoters industry and strong brand presence are expected to support in a successful sale of the units in existing and upcoming projects, and timely completion of the projects.

• Moderate execution risk and low funding risk

AHPL presently developing four ongoing projects - two in Guntur (Aaditri Exotica and Aaditri Evoca) and two in Tirupathi (Aaditri Empress and Aaditri Haricharanam). The total saleable area of the aforesaid projects is 12.70 lakh square feet with a total project cost of Rs.341 crores. It is to be funded through 23 percent of debt (provisionary), 7 percent of equity (in form of equity and unsecured loans) and remaining through customer advances. Cumulatively, AHPL has completed 65 percent of construction and incurred Rs.221 crores as on June, 2020. The no. of flats booked were 410 units as on June, 2020 taking booking status at 52 per cent and customer advances received as a percentage of

sales value at 55 per cent. The entire promoter's contribution of Rs.23.5 crores has been infused and 10.2 percent (Rs.35 crores) of debt has been availed as on June, 2020. Out of the Rs.35 crores of debt, Rs.8 crores is prepaid. Around 68 percent of the project cost is covered through customer advances. This totals to Rs.290 crores (85 percent of project cost) being received out of Rs.341 crores of the project cost. For the remaining part of work completion, the company is expected to use customer advances and the proposed funding supported by promoter's infusion, if needed. Acuite believes that adequate funds and customer advances in place provides a larger scope of financial flexibility and exhibits moderate execution risks and low funding risks.

Weaknesses

• High geographical concentration risk; diversification expected through its upcoming project in Telangana

AHPL has all the 4 ongoing projects in AP - 2 in Guntur and 2 in Tirupathi. AHPL plans to diversify in Telangana, through its upcoming project in pipeline in Velimela (Hyderabad). The upcoming project is 1.5x times bigger than its 4 on-going projects in AP in terms of area covered. The project name is 'Aaditri Empire' covering an area of 20.5 lakh square feet with the construction of 930 flats and 200 Villas. The project is in the initial stages of procuring statutory approvals. Telangana region is explored by AHPL with the brand presence of 'AADITRI' through past projects completed under the company name 'Siri homes infra India private limited'. The promoters have completed 5 projects covering an area of 96,916 square feet with a project cost of Rs.54 crores in Hyderabad. Acuite believes that AHPL would remain geographically concentrated until the successful completion of 'Aaditri Empire' in Hyderabad and receipt of healthy customer advances through the sale of entire units. Furthermore, AHPL would continue to remain exposed to intense competition from larger players in Telangana like Jayabheri group, Aparna Constructions and estates Pvt Ltd, Prestige Group, My Home group, Kalpataru Group, mantra Group, Lodha group, etc.

• Inherent cyclicity in Real Estate Sector and moderate 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 the real estate industry are cyclical in nature of business (drop in property prices) and interest rate risk, among others, which could affect the operations. The current market scenario of COVID-19 has impacted the completion of real estate developer's ongoing projects as, project sites are shut, migration of labour back to their hometowns and unavailability of raw material. The Real Estate sector is under high stress on account of large amounts of unsold inventory and high borrowing costs. AHPL, on the contrary, has been moderately impacted by the Covid-19 pandemic with minor hit likely to take toll on cash-flows over the near to medium term. Due to the Covid-19 pandemic, the work was stalled in the month of April, 2020. Consequently, with 70-80 percent of the labour force capacity and lower raw material disruptions, the construction was started from May, 2020. Leveraging its brand equity by way of attractive structures and amenities at reasonable rates through beckoning schemes, AHPL has received moderate bookings and customer advances amid pandemic. Into the bargain, is the comparatively higher demand for properties amid pandemic in tier II and III cities like Guntur and Tirupathi. On a consolidated basis (for 4 on-going projects), Construction status increased from 43 percent as on March, 2020 to 65 percent as on June, 2020 vis-à-vis bookings from 41 percent to 52 percent. The customer advances flow showed a ripple effect from 31 percent to 55 percent as on March, 2020 and June, 2020, respectively. Acuite believes that with average completion status of 65 per cent and bookings of 52 per cent, the execution and demand risk is moderate.

Liquidity Position: Adequate

The company has healthy liquidity marked by prepayments on its long term debt obligations, a secured payment mechanism with Escrow account, DSRA for 3 months of interest and DSCR > 4 times. Robust metrics on construction, customer advances and sales with lower dependence on external debt aided to such healthy DSCR. AHPL is mainly dependent on customer advances for its project funding and debt repayment. The cumulative project cost of Rs.341 crores is to be funded through merely 23 percent of external borrowing (provisionary as a certain portion of the loan is expected to be tied up) and 7 per cent of equity with remaining being customer advances. To boost, Liquidity is supported by prepayment of its existing Rs.35 crores of loan to the tune of ~Rs.8 crores through customer advances. Also, proposed funding from State Bank of India will strategically be utilized to repay high cost loans or to fund any funding requirements for existing or future projects. Acuite expects AHPL to continue

generating healthy surplus cashflows from its unsold inventory in the near to medium term to meet its repayment obligations as well as incremental construction costs.

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 salability of project or delays in project execution
- Weakening of the financial risk profile due to higher-than-expected borrowing.

Outlook: Stable

Acuite believes that the AHPL will maintain 'Stable' business risk profile over the medium term on the back of experienced promoters and strong brand presence in the real estate industry. The outlook may be revised to 'Positive' in case of higher-than-expected advances from customers resulting in adequate cash flows for early completion of the project and prepaying the debt. Conversely, the outlook may be revised to 'Negative' in case of any undue delay in completion of the project, or less-than-expected bookings and advance leading to stretch on its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	34.07	17.41
PAT	Rs. Cr.	0.91	0.26
PAT Margin	(%)	2.67	1.48
Total Debt/Tangible Net Worth	Times	1.2	1.5
PBDIT/Interest	Times	1.35	1.2

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-50.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 (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
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB- / Stable

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President - Corporate Ratings Tel: 022-4929 4041 aditya.gupta@acuite.in</p> <p>Neha Agarwal Senior Analyst - Rating Operations Tel: 040-4004 2327 bhavanisankar.oruganti@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-4929 4011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.