

Press Release

Saroj Group

September 09, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.15.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.15.00 crore of bank facilities of Saroj Group (SG). The outlook is '**Stable**'.

Bangalore-based, SG was established in 2003 by Mr. Chakradhar Chidipothu. SG is engaged in the real estate development business.

The proprietor has successfully completed more than 15 real estate projects in Bangalore and currently, there are four ongoing projects, 'Saroj Whispering Winds Phase-I', 'Saroj Silver Oak', 'Saroj Blue Bells' and 'Saroj Iris'. All the ongoing projects are in different entities. SG has only one on-going project, i.e. Saroj Blue Bells.

SG has signed a Joint Development Agreement with land providers for Saroj Blue Bells. SG will be developing 155 units and will be receiving 91 units for sale as its own share according to the agreement. The project started on 01-Aug-2019 and completion date is 31-May-22.

Analytical Approach

For arriving at the rating, Acuite has considered the standalone credit profile of SG.

Key Rating Drivers

Strengths

- **Experienced proprietor**

The promoter, Mr. Chakradhar Chidipothu has an experience of almost two decades in the real estate industry through other group companies.

Acuite believes that the firm's established track record of successful project execution and brand presence along with financial backing from promoters will continue to support its business risk profile over near to medium term.

- **Moderate project pace**

The project started on 01-Aug-2019 and total cost of the project is Rs.45.00 crore. Out of which, SG has taken Rs.15.00 crore of term loan and rest amount is to be funded by proprietor's contribution and customer advances in the ratio of 50:50. SG has incurred ~17% of the total project cost and has sold 7 flats out of its share of 91 flats as on July 31, 2020. The project has to be completed by May 31, 2022.

Further, the current market scenario of COVID-19 has moderately impacted the completion of on-going project as, project sites are shut, migration of labor back to their hometowns and unavailability of raw material. However, the sites started operating from mid-June, 2020.

Weaknesses

- **High execution risk over susceptibility to real estate cyclicality and regulatory risks**

SG is exposed to the risk of volatile prices on account of frequent demand-supply mismatches in the industry. The Real Estate sector 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 developer's ability to reduce prices. Further, the industry is exposed to regulatory risk, which is likely to impact players such as SRSBL thereby impacting its operating capabilities.

Rating Sensitivities

- Timely project execution as per schedule
- Delays in customer advances leading to increased dependence on external borrowings

Material Covenants

None

Liquidity Position: Adequate

SG's liquidity is supported by adequate cash inflows reflected from on-going projects. The firm has received Rs.1.07 crore in the form of customer advances from Saroj Blue Bells project which is ~29% percent of the 7 sold flats. SG has funded Rs.15.00 crore via term loans out of the total project cost of Rs.45.00 crore. The project is to be completed by May 31, 2022 and first principal payment of Rs.2.50 crore is due on March 31, 2022. Acuite believes that SG would be able to generate sufficient cash inflows by that time. Further, any delay in launching the project or lower than expected cash realisation from flat booking will result in a stretched liquidity position.

Outlook: Stable

Acuite believes that SG will maintain a 'Stable' outlook over the medium term on account of its experienced promoter in the industry and healthy booking levels of the 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, unsold inventory or in case of delay in project execution.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	1.08	1.34
PAT	Rs. Cr.	-0.99	-0.47
PAT Margin	(%)	-91.59	-34.92
Total Debt/Tangible Net Worth	Times	1.77	0.72
PBDIT/Interest	Times	0.00	-2.01

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Real Estate Sector - <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)

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
Term Loan	31-Mar-2022	Not Applicable	30-Jun-2024	15.00	ACUITE BB / Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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