

Press Release

Bharathi Homes and Realtors Private Limited

December 22, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 15.91 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.15.91 crore bank facilities of Bharathi Homes and Realtors Private Limited (BHRPL). The outlook is '**Stable**'.

Established as a proprietorship entity in 2008 as Bharathi Homes, it was later re-constituted as a private limited company in 2016. Bharathi Homes and Realtors Private Limited (BHRPL) is a Chennai based company, involved in the development of residential as well as commercial real estate projects. The company is promoted by Mr. Arun Bharathi Arunachalam and his relatives. Bharathi Homes completed about 18 projects in and around Chennai region and developed 1.50 lakh square feet (sq ft) till date. The company has an ongoing development portfolio of about 1.42 lakh sq ft.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of BHRPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established experience in real estate segment**

BHRPL is promoted by Mr. Arun Bharathi Arunachalam and his relatives, who have more than a decade of experience in real-estate development in the Chennai region. The promoters have developed nearly 1.50 lakh sq. ft. of real estate space in Chennai over the past 12 years. In FY2021 it has successfully completed BRIK HOUSE BLOCK A & B within the scheduled timelines and handed over 90 percent of its salable area of 1.42 lakhs sqft. The established track record of the promoters in the real estate business and the presence of experienced and qualified professionals in the company ensure prudent project planning and execution capabilities.

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

Weaknesses

- **Exposure to risk related to salability for new projects**

The Company is under the process of starting construction of 2 new residential development projects - Elements Alapakkam and Elements Tambaram during January 2021-April 2022. The project - Elements Alapakkam is proposed at a project cost of about Rs.24.35 Cr. The project is expected to be funded by promoter's contribution of about Rs.6.40 Cr (~26 percent of project cost), bank funding of about Rs.3.00 Cr (~12 percent) and customer advances of about Rs.14.95 Cr (~ 62 percent). The project - Elements Tambaram is proposed at a project cost of about Rs.29.23 Cr. The project is expected to be funded by promoter's contribution of about Rs.11.65 Cr (~40 percent of project cost), bank funding of about Rs.3.58 Cr (~12 percent) and customer advances of about Rs.14.00 Cr (~ 48 percent). The high reliance on customer advances, and promoter contribution coupled with proposed debt funding, exposes the company to moderate funding risk. Apart from above projects BHRPL simultaneously under the process of starting construction NVT Villa & Commercial (which consists 16 Villas with a 28,750 Sqft) and Express Towers which proposed to construct 82 units with 58396 sqft.

Acuite believes that the ability of the company to achieve financial closure and complete the project within the specified timelines without any time and cost overruns to attract sales traction will be a key rating

sensitivity.

• Inherent cyclicity in Real Estate Sector

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 would impact the completion of ongoing projects and the pandemic has further exacerbated the situation, with sales and collections witnessing moderation in Q1FY2021. Though the performance is likely to improve gradually, sales and collections are expected to remain subdued in FY2021. Also, the project being in the early phase of execution exposes the company to inherent cyclicity. Real estate sales have been subdued in recent times because of exposure to investor-driven markets and the impact of RERA, sales velocity remains critical for the new project. Acuite believes that the company will remain exposed to the inherent cyclicity in the real estate sector.

Liquidity Position: Adequate

BHRPL's liquidity is likely to be adequate with regular flow of customer advances against its construction cost. The proposed loan is likely to have an escrow mechanism and first charge on cash flows from the project. Additionally, a debt service reserve account (DSRA) mechanism is expected to be in place, which adds cushion to the liquidity. For the proposed project, the DSCR is likely to be above 2 times. The promoters have been infusing funds in the company in line with project progress. The repayment on this proposed loan is expected to commence from fiscal 2022 with a repayment tenor of 2.0 years.

Rating Sensitivities

- Timely achievement of financial closure.
- Deterioration in cash buffer ratio due to slowdown in booking or flow of customer advances
- Lower than expected sales traction leading to increased dependence on more debt
- Sharp decline in cash flow, by slackened salability of project or delays in project execution

Material covenants

None

Outlook: Stable

Acuite believes that the BHRPL will maintain 'Stable' business risk profile over the medium term on the back of experienced promoters and established brand presence in the Chennai real estate market. 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.	25.78	16.75
PAT	Rs. Cr.	0.76	0.39
PAT Margin	(%)	2.93	2.32
Total Debt/Tangible Net Worth	Times	3.67	6.77
PBDIT/Interest	Times	1.63	1.63

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

None

Any other information

None

Applicable Criteria

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

Not Applicable

#Annexure – Details of instruments rated

Name of the Facilities	Name of the Bank	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings
Proposed Project Loan	Not Applicable	Not Applicable	Not Applicable	Not Applicable	6.58	ACUITE BB/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	Not Applicable	9.33	ACUITE BB/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate Ratings Tel: 022-4929 4041 aditya.gupta@acuite.in Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-4004 2327 bhavanisankar.oruganti@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-4929 4011 rating.desk@acuite.in

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.