

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

Acuité 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

Acuité 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.

Acuité 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 Thambaram 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 Thambaram 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.

Acuité 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 cyclical 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 cyclical. 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 cyclical 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

Acuité 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)

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About Acuité Ratings & Research:

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