

Press Release

Honer Developers Private Limited

February 15, 2021



Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs. 150.00 Cr. (Enhanced from Rs. 75.00 Cr)
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Reaffirmed & Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs. 150.00 Cr bank facilities of Honer Developers Private Limited. The outlook is '**Stable**'.

Honer Developers Private Limited (HDPL), based out of Hyderabad, Telangana, was incorporated in 2016 by four experienced professionals from the retail sector namely Mr. Venkateswarlu, Mr. S Rajamouli, Mr. Balachandrudu and Mr. Y.S. Kumar. The company is engaged in real estate construction and development. The company is currently executing a large residential project under the name of 'Honer Aquantis' in Gopanapally, Hyderabad, with a total saleable area of 19,94,830 sq. ft.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of HDPL for arriving at the rating.

Key Rating Drivers

Strengths

- Longstanding experience of promoters and reputation in the South Indian market**

HDPL is led by promoters of RS Brothers Group and Big C Mobiles Group. The directors of the company have aggregate handled more than 4 million sq. ft. of real estate development in Hyderabad, Vizag, Vijayawada, Rajahmundry, etc. for the last 14 years. Mr. P. Venkateswarlu has played the crucial role in creating the RS Brothers and South India Shopping Mall Group from scratch. Under his leadership, the Group has evolved, over 3 decades, to emerge as the region's leading retail conglomerate. Mr. M. Balachandrudu the founder and Managing Director of Big C Mobile Group has been highly instrumental for the group's success as it is today. This has led to better ingestion of brand name of "HONER" in the market of Hyderabad region. Succeeding in the past projects HDPL was incorporated with the intent to execute sizeable and affordable housing projects in Hyderabad, Vizag, Vijayawada, etc. This is unveiled through an already executed project, "Honer Vivantis" with a total saleable area of 11,65,200 sq. ft. in Hyderabad region and currently ongoing project "Honer Aquantis" with a total saleable area of 19,94,830 sq. ft. The construction started in December 2019 and is expected to be completed by August 2025. 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 existing units and upcoming projects and timely completion of the projects.

- Low funding risk and execution risk**

The company is currently developing a project "Honer Aquantis" at a cost of about Rs.766 Cr. The total saleable area of the aforesaid project is 19.94 lakh square feet. It is to be funded through 23 percent of debt (provisionally), 10 percent of equity (in form of equity and unsecured loans) and remaining through customer advances. Cumulatively, HDPL has completed 21 percent of construction and incurred Rs. 94 Cr as on November, 2020. The no. of flats booked were 212 units as on November, 2020. The entire promoter's contribution of Rs. 76 Cr has been infused and 7 percent (Rs.55 Cr) of debt has been availed as on November, 2020. Out of the Rs.55 Cr of debt, Rs.1.4 Cr is prepaid. Around 68 percent of the project cost is covered through customer advances. In case of any exigency, the promoters are expected to bring additional money to support the project. Acuité believes that adequate funds and customer advances in place provides a larger scope of financial flexibility and exhibits low execution risks and funding risks.

Weaknesses

- **Geographically concentrated projects; albeit diversification expected through its upcoming projects in Andhra Pradesh**

HDPL has an already executed project located in Hyderabad and the on-going project is also in Hyderabad. However, HDPL plans to diversify in cities in Andhra Pradesh, through its upcoming project in pipeline in Vizag, Vijayawada, etc. There are 3 upcoming projects which are each expected to > 2 million sq. ft and located in Hyderabad, Vizag. The promoters have a track of handling projects covering an area of > 4 million sq. ft. in Hyderabad, Vizag, Vijayawada, Rajahmundry. Acuité believes that HDPL would remain geographically concentrated until the successful completion of 'Honer Aquantis' in Hyderabad and receipt of healthy customer advances through the sale of entire units. Furthermore, HDPL would continue to remain exposed to intense competition from larger players in Telangana like Jayabheri Group, Aparna Constructions and Estates Private Limited, Prestige Group, My Home Group, Kalpataru Group, Mantra Group, Lodha Group, etc.

- **Inherent cyclical in real estate sector 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 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, unsold inventory, shortage of labour and materials, etc. The real estate sector is under high stress on account of large amounts of unsold inventory and high borrowing costs. HDPL, 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, HDPL has received moderate bookings and customer advances amid pandemic. Hyderabad has reported the least amount of inventory overhang in months compared to other major cities. Construction status of ongoing project increased from 5 percent as of March, 2020 to 13 percent as of November, 2020 vis-à-vis bookings from 12.1 percent to 17 percent. Acuité believes that with average completion status of 13 per cent and bookings of 17 per cent, the execution and demand risk is moderate given the timelines of completion of project.

Rating Sensitivities

- Timely realization of customer advances pending from sold inventory
- Lower than expected sales traction leading to increased dependence on debt
- Any acute decline in cash flows due to slowdown in salability of project or delays in project execution
- Unexpected increase in borrowings thereby weakening the financial risk profile

Liquidity: Adequate

The company has healthy liquidity marked by 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. HDPL is mainly dependent on customer advances for its project funding and debt repayment. The cumulative project cost of Rs.766 Cr is to be funded through merely 21 percent of external borrowing (provisionally; as a certain portion of the loan is expected to be tied up) and 10 per cent of equity with remaining being customer advances. Acuité expects HDPL 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.

Outlook: Stable

Acuité believes that the HDPL 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.	109.00	176.71
PAT	Rs. Cr.	6.57	3.67
PAT Margin	(%)	6.03	2.08
Total Debt/Tangible Net Worth	Times	0.92	18.60
PBDIT/Interest	Times	2.92	2.50

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Any Material Covenants

All receivables from the project shall be utilised towards the construction and development of proposed project "Honer Aquantis" and no money shall be allowed to be taken out.

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>
- 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)

Date	Name of Instrument / Facilities	Term	Amount (Rs Cr)	Ratings/Outlook
20-Jan-2021	Term Loan	Long Term	75.00	ACUITE BBB-/ Stable (Assigned)

*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	Mar, 2019	12.60%	Aug, 2024	75.00	ACUITE BBB-/Stable (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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