

Press Release

Ridgecraft Homes Private Limited

August 26, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 210.00 Cr.
Long Term Rating	Provisional ACUTE BBB-/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of **'PROVISIONAL ACUTE BBB-' (read as Provisional ACUTE Triple B 'minus')** on the Rs. 210.00 Cr Non-Convertible Debentures (NCDs) of Ridgecraft Homes Private Limited (RHPL). The outlook is **'Stable'**.

The rating assigned considers the established market presence of the promoter group in the real estate market of North India, the extensive experience of the promoters and continued business and financial support from BPTP Limited, the flagship entity of the group. These rating strengths are partly offset by geographical concentration in the revenue profile, nascent stages of project implementation and susceptibility to cyclicalities inherent to real estate industry.

The rating on the Rs.210.00 Cr NCDs is provisional and the final rating is subject to (pending steps/documentation):

1. Appointment of a SEBI registered Debenture Trustee
2. Receipt of the executed Debenture Trust Deed
3. Receipt of the executed Guarantee Document
4. Opening of Escrow Account in accordance with the Trust and Retention Account Agreements
5. Receipt of final term sheet and confirmation from Trustee regarding the compliance with all the terms and conditions

About the company

Incorporated in 2018 and based in Faridabad (Haryana), Ridgecraft Homes Private Limited (RHPL) is engaged in the real estate industry as a real estate developer engaged primarily in construction of residential floors and development of land and sale of plots. RHPL is a family-owned business and promoted by Ms. Anjali Chawla (wife of Mr. Kabul Chawla, Managing Director and Chairman of BPTP Limited). The promoters of the company have been engaged in the Indian real estate industry for more than 2 decades. RHPL's upcoming projects are located in Sector 81 (17.5 acres), Sector 84 (5.82 acres), Sector 84 (14.44 acres), Sector 85 (5.57 acres) and Sector 86 (7.76 acres) of Faridabad (Haryana). The business plan of the RHPL's management is to generate cash flows through sale of land as developed plots and constructed floors (flats). However, the proportion of sales through plot and floors will be dependent to the customer demand and property prices of plotted land in the given region. The expected total saleable area stands at 1,19,880 sq. yds. (in terms for development of plotted land) and 44.04 lakhs sq. ft. (in terms for development of floors). The property located at Sector 81 and part of Sector 84 has been developed, resulting in expected project cost of ~ Rs. 42.60 Cr for plotted land development of Sector 84 (14.44 acres), Sector 85 and Sector 86. The revenue in terms of sale as plotted land from the expected upcoming projects is estimated around Rs.633.80 Cr (considering the agreed minimum sales price as per the term sheet). On other hand, in case of sale of properties as constructed floors, the project development cost for the upcoming projects is estimated to be around Rs. 1,004 Cr with sales value to be realized around Rs. 2,607 Cr (considering the agreed minimum sales price as per the term sheet) over the medium to long term.

About the group company – BPTP Limited (rated ACUTE BBB/Stable/ACUTE A2)

BPTP Limited (BPTP) was incorporated in 2003 by Mr. Kabul Chawla in Faridabad (Haryana). BPTP (Business park town planners) is one of the largest real estate developer in terms of units delivered in the National Capital Region (NCR) and is engaged in development of real estate with presence in verticals like Residential, Commercial projects ranging from Integrated Township, Group Housing, Low Rise plotted development, Villas, Retail, Office Space, Cyber Parks and plotted land. BPTP is presently developing 16 residential projects across Faridabad and Gurugram and 1 commercial project in Noida. As of March 31, 2021, the total saleable area of the aforesaid residential projects is ~136.34 lakh square feet with a total project cost of ~ Rs. 2,300 Cr to construct ~9,300 units. (of this many have already been delivered). Further, Company is undertaking several plotted development projects which are in various stage of completion.

Analytical Approach

To arrive at rating, Acuite has considered the standalone business and financial risk profile of Ridgecraft Homes Private Limited and notched up the standalone rating by factoring in the strong operational and financial support to be expected in form of development management services and extension of corporate guarantee for the NCDs by 'BTP Limited'.

Key Rating Drivers

Strengths

• Longstanding track record of BTP Limited in the real-estate sector; Promoter's industry experience and established regional presence

BTP was incorporated in 2003 with the main objective of developing real estate in verticals of Residential, Commercial projects ranging from Integrated Township, Group Housing, Retail, Office Space and Cyber Parks by Mr. Kabul Chawla, who has more than 2 decades of experience in the real estate industry.

Mr. Kabul Chawla is a first-generation entrepreneur and started his business venture of development of real estate in the year 1994. Since inception, the company has acquired more than 2,500 acres of land bank primarily in Faridabad, Gurgaon and Noida. Nearly entire land bank of the company falls in approved Zones (Residential, Commercial, IT, SEZ) which strengthens the company to keep supply of realty inventory extant as per demand in the market. Since inception, on a consolidated basis, BTP has developed or is currently developing more than 43 million square feet of saleable area (Group Housing apartments, Low Rise, plotted development, Villas, plots, Commercial Spaces etc.) in NCR, primarily in Faridabad and Gurgaon. The Company has achieved sales value of more than Rs. 11,000 Cr over the years and has delivered more than 18,000 units; of which more than 8,400 units have been delivered over last 5 years which is one of the highest in NCR region. BTP has a diversified portfolio of contemporary commercial, residential, and retail developments, wherein each project is defined by its unique architecture, design, aesthetics and infrastructure. BTP not only offers viable realty with its mega township Parklands in Faridabad but has also forayed in luxury housing with various projects across the NCR. Acuite believes that promoters' extensive industry experience and leveraging of its brand equity will lead to moderate implementation and demand risk associated with upcoming projects of RHPL over the medium term.

• Strong support in business operations from BTP Limited

RHPL's expected upcoming projects will be under the directions of the promoter-related group entity 'BTP Limited' as the same will provide its expertise as development management services whereby the project will be using the brand name of 'BTP'. BTP Limited will jointly take decision in business plan involving Sales pricing and volume, Marketing and sales strategy, developing mix and phasing, Master planning and individual building massing, construction milestones, cost estimations and building specifications. Besides the operational support, BTP is expected to extended a corporate guarantee for the NCDs issued by RHPL. Acuite believes that the presence of operational and financial support from the BTP Limited is likely to augment the business and financial risk profile of the company.

• Presence of escrow account and waterfall mechanism to ensure timely repayment

The investors to the NCDs are expected to benefit from the Escrow account and the waterfall mechanism for servicing principal, interest, and other obligations payable towards the arrangement. RHPL's sale proceeds i.e. all receivables generated from the project pursuant to sales of apartment/plots/office spaces/any other units will be re-routed through a designated escrow account. The distribution as per the waterfall mechanism is as follow:

- 1) To pay any outstanding / defaulted amounts as per the terms of the NCDs.
- 2) To pay scheduled interest & principal as per the terms of the NCDs.
 - a. A reserve (FD) for 1 month's interest shall be kept ("Interest Reserve").
 - b. A reserve (FD) shall be created for 1 quarter's Principal repayment ("Principal Reserve") on the outstanding principal on the first day of the quarter in which it is due, only in case there is any event of default.
- 3) The remaining cash flows will be transferred to a "second account" for payment towards the operational costs.

However, RHPL needs to maintain 'security cover' of 2x the value of outstanding investment and outstanding interest but not paid. Lastly, RHPL can use the balance excess amount to pre-pay the NCDs or release it to the Company/Developer. Acuite believes that the presence of adequate liquidity buffers and the trustee oversight mechanism will strengthen the payment structure.

• Moderate project risk profile

The term sheet for issue of Rs.210.00 Cr worth Non-Convertible Debentures (NCDs) has been signed between the Investor (Kotak Investment Advisors Limited) and the Issuer (Ridgecraft Homes Private Limited). The

closing date of the NCDs is expected to be in the first week of September leading to limited funding risk on the upcoming project. The implementation risk of the project stands moderate on account of presence of operational support from BPTP Limited in terms of development management services. Notably, the units sales data by BPTP Limited in Sector 81 and Sector 84 indicate that the demand has been recovering steadily in the real estate sector leading to increase in property prices over the last 6-9 months. Acuite believes that the project risk profile of RHPL will remain moderate over the medium term.

Weaknesses

• High geographical concentration risk in revenue profile with upcoming projects

RHPL's upcoming projects are in NCR majorly in Faridabad; with no plans to diversify in the medium term. Acuite believes that RHPL would remain geographically concentrated until the start-up and successful completion of any project and receipt of healthy customer advances through the sale of entire units in any other region in future.

• Presence of project in nascent stage of construction for major properties in upcoming land portfolio

RHPL is expected to utilize the funds received from the issue of NCDs as the purchase consideration towards the land bank consisting of properties located in Sector 81, Sector 84, Sector 85 and Sector 86 of Faridabad (Haryana). The expected total saleable area stands at 1,19,880 sq. yds. (in terms for development of plotted land) and 44.04 lakhs sq. ft. (in terms for development of floors). The projects have received the RERA for almost all the properties, and application with RERA has been submitted for the pending property. The project development work is expected to begin from September 2021 and expected to be completed in 6-12 months (in case of development of Plotted land) and in around 2 years (in case of development of floors). Acuite believes that timely receipt of regulatory approval and customer advances will be critical for funding and completion of the projects.

• Susceptible to real estate cyclicity and regulatory risks

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. RHPL is exposed to the risk of volatile prices on account of demand-supply mismatches in the Faridabad real estate industry. The company is exposed to market risks for the unsold inventory, in terms of sales velocity, pricing and timely collection, particularly if there are sustained lockdowns owing to Covid-19 pandemic. Further, the industry is exposed to regulatory risk, which is likely to impact players such as RHPL, thereby impacting its operating capabilities. However, Acuite believes that from the customer demand for the project being completed at BPTP Limited level with about almost entire units sold in the Sector 81 and Sector 84 of Faridabad, mitigates the risks to an extent.

Liquidity Position: Adequate

RHPL's liquidity is expected to be marked by a secured payment mechanism with Escrow account in all projects, presence of waterfall mechanism, Interest reserve (FD) for 1 months of interest, presence of interest moratorium for 6 months, principal repayment starting from the end of ninth quarter from the first date of closing coupled with moderate DSCR expected until FY2024. Moderate metrics on construction, customer advances and sales against majority of debt availed is expected to lead to DSCR of around 5.08x times in base case scenario and 1.58x times in stress case scenario. RHPL is mainly dependent on customer advances, NCD proceeds and sale proceeds from developed land plots for its project funding and debt repayment.

Rating Sensitivities

Positive

- Timely completion of construction or timely realization of customer advances pending from sold inventory
- Timely sale of the unsold inventory and realization of its customer advances
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.
- Sustainable improvement in realization per unit by the company.

Negative

- Sharp decline in cash flow, by slackened salability of project or further delays in project execution leading to high customer risk and cash flow mismatch.
- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company.

Outlook: Stable

Acuite believes that the RHPL will maintain 'Stable' business and financial risk profile over the medium term on the back of experienced promoters, long track record of operations of supporting related entity and established brand presence in the real estate industry. The outlook may be revised to 'Positive', in case of higher-than-anticipated advances from customers or promoter fund support resulting in adequate cash flows. Conversely, the outlook may be revised to 'Negative' in case if any undue delay in completion of the project, or less-than-expected bookings and advance leading to stretch on RHPL's liquidity.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	75.26	-
PAT	Rs. Cr.	3.47	(0.16)
PAT Margin	(%)	4.61	-
Total Debt/Tangible Net Worth	Times	0.03	-
PBDIT/Interest	Times	-	(117.07)

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

Not Applicable

Any other information

Part 1. Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

1. Absence of any entity to take appropriate measures to protect the interest of the debenture holders in case of any breach of the trust deed or law.
2. Absence of guaranteed support from the group entity in case of any exigency.
3. Absence of any structured payment mechanism.
4. In case, there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued), Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

The rating would be equated to the standalone rating of the entity: ACUITE BB/Stable

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued:

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

Part 2. Further disclosures for REITs / InvITs

Not Applicable

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**

Lender's Name	ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Kotak Investment Advisors Limited	-	Proposed Non-Convertible Debentures	Not Applicable	16.00%	60 months	210.00	Provisional ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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