

Press Release

Alekhya Property Developments Private Limited

October 14, 2021

Rating Assigned



Proposed NCD/Bonds*	Rs.150.00 Cr.
Long Term Rating	ACUITE B/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of **'ACUITE B' (read as ACUITE B)** on the Rs. 150.00 Cr proposed NCD of Alekhya Property Developments Private Limited (APDPL). The outlook is **'Stable'**.

The rating takes into cognizance the experience of the promoter in real estate development, favorable project location and the support extended by the promoter developer through regular infusion of funds in the form of unsecured loans. These strengths are however, partly offset by the below average financial risk profile of the group, risk of project execution, poor liquidity position and exposure to the risks in the real estate industry.

About the company

Alekhya Property Development Private Limited is a SPV floated by Adarsh Developers. It is currently developing an apartment project "Lake Front Phase-1 & 2" in Kaikondrahalli, North Bangalore. Earlier the project was launched in 2014, however due to some environmental issue the project was stalled and again relaunched in 2020. The project has a total saleable area of 1 mn sqft including TDR Area of 0.3 mn sqft. Currently, 40 per cent of the phase 1 of the project is completed and out of 344 flats, 153 flats are sold.

About the group

Established in 1988, by Mr. BM Jayeshankar and Mr. BM Karunesh, Adarsh Developers (AD) is a partnership firm engaged in carrying out the business of development and construction of residential and commercial projects. AD is the flagship as well as holding company of the Adarsh Group. Further, the group has ventured into hospitality business also.

Adarsh Group has completed residential and commercial projects totalling over 12 mn. sq.ft., including 1.2 mn sq ft SEZ. Presently, they have 8-10 ongoing projects. Additionally, the group has a total land bank of around 1000 acre (most are in Bangalore and Karnataka and some are in Chennai, Tamilnadu, Kerala and Goa).

Shreshta Infra Projects Pvt Ltd. is another SPV floated by Adarsh Developers. It is developing a residential villa project "Adarsh Sanctuary" in Kodati, Bangalore. The project has a total of 172 units with 0.58 Msft of builtup area out of which SIPPL has a share of 118 Villas with 0.41 msft. The project will be completed by February, 2024. The company is also developing "Adarsh Savana", a plotted development project with saleable area of 2.6 Msqft in Shreshta Infra Projects Pvt Ltd. The phase I of the project will be completed by October, 2022.

Analytical Approach

For arriving at this rating, Acuite has consolidated the business and financial risk profiles of Shreshta Infra Projects Private Limited (SIPPL) and Alekhya Property Developments Private Limited (APDPL) together referred to as the 'Adarsh Project Group' (APG). The consolidation is in the view of common management, cross collateralization of the NCDs and a similar line of business. Extent of consolidation: Full.

Key Rating Drivers

Strengths

• Experienced management and long operational track record

Adarsh Group has a long operational track record in the real estate industry for more than three decades. In addition to this, the partners Mr. BM Jayeshankar and Mr. BM Karunesh are highly experienced and actively

involved in the operations of the group. Acuite believes that the long operational track record of the group and promoter's extensive understanding and expertise will support the group's growth plans going forward.

Weakness

• Below average financial risk profile

The consolidated financial profile of APG is average marked by low networth, high gearing and weak debt protection metrics. The tangible net worth of the group decreased to Rs.4.64 Cr as on March 31, 2021 from Rs.3.56 Cr as on March 31, 2020 on account of losses incurred in FY2021. Gearing of the group stood high at 89.78 times as on March 31, 2021 as against 106.70 times as on March 31, 2020. The debt of Rs.416.49 Cr consists of term loan of Rs.332.54 Cr and unsecured loan of Rs.83.95 Cr. The weak debt protection metrics of the group is marked by Interest Service Coverage Ratio (ICR) at 0.51 times as on March 31, 2021 and Debt Service Coverage Ratio at 0.50 times as on March 31, 2021. Acuite believes that financial risk profile of the group is expected to be improved over the medium term.

• Exposure to the risks in the Real Estate Industry

The business 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 developers' ability to reduce prices.

Rating Sensitivity

- Timely receipt of customer advances
- Improvement in financial risk profile
- Scheduled completion of project

Material Covenant

None

Liquidity Profile: Poor

The group's liquidity is poor marked by the recent delays in repayments of debts. Further the group is incurring continuous losses as the projects are in construction stage. The cash and bank balances of the group stood at Rs.9.06 Cr as on March 31, 2021 as compared to Rs.0.95 Cr as on March 31, 2020. However, the current ratio stood comfortable at 4.45 times as on March 31, 2021 as compared to 10.64 times as on March 31, 2020. Acuite draws comfort from the promoter's regular fund infusion into the business. Acuite believes that going forward the group will also improve its liquidity position due to steady accruals buoyed by improvement in revenue realization.

Outlook: Stable

Acuite believes that the outlook on Adarsh Project Group will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, and financial flexibility. The outlook may be revised to 'Positive' in case the group makes substantial progress on the bookings over the medium term. Conversely, the outlook may be revised to 'Negative' in case there is significant drop in bookings or any deterioration of financial risk profile leading to pressure on liquidity.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	14.65	9.66
PAT	Rs. Cr.	(26.99)	(3.78)
PAT Margin	(%)	(184.26)	(39.13)
Total Debt/Tangible Net Worth	Times	89.78	106.70
PBDIT/Interest	Times	0.51	0.87

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Real Estate Entities- <https://www.acuite.in/view-rating-criteria-63.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.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 name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/ Outlook
Not Applicable	Proposed NCD	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE B/Stable (Assigned)

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About Acuité Ratings & Research

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