

Press Release

Alekhya Property Developments Private Limited

October 14, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	150.00	ACUITE B Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	150.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of **'ACUITE B' (read as ACUITE B)** on the Rs. 150.00 Cr 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, Acuité 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. Acuité 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.

Weaknesses

- **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.1.79 Cr as on March 31, 2022 from Rs.4.64 Cr as on March 31, 2021 on account of continuous losses. Gearing of the group stood high at 542.89 times as on March 31, 2022 as against 89.78 times as on March 31, 2021. The weak debt protection metrics of the group is marked by Interest Service Coverage Ratio (ICR) at 0.27 times as on March 31, 2022 and Debt Service Coverage Ratio at 0.27 times as on March 31, 2022. Acuité 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.

ESG Factors Relevant for Rating

Environment: The inherent material risk to this industry includes releasing toxic greenhouse gases and delivering a green building structure by utilizing clean technology. Additionally, material efficiency is of utmost importance as it creates a concrete foundation. Furthermore, waste disposal and promotion of energy efficient alternatives are other key issues.

Social: Employee health & safety management is of primary importance to the construction industry given the nature of operations. Additionally, product quality and safety is of utmost significance. Human rights concerns such as forced labour are crucial considering the exploitative industry practices. Furthermore, responsible procurement and community relations are key influencing factors.

Governance: Factors such as ethical business practices, legal and regulatory compliance hold utmost significance in the construction industry, considering the frequency of litigations. Other issues include management compensation and Board oversight. Likewise, corruption and bribery associated with getting licenses and permits are other material issues to the industry.

Rating Sensitivities

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

Material covenants

None

Liquidity Position: Adequate

The group's liquidity is adequate marked by prepayment of debt of Rs.135 Cr and high cash and bank balances of the group, which stood at Rs.118.21 Cr as on March 31, 2022 as compared to Rs.9.06 Cr as on March 31, 2021. Moreover, the group has total sales receivables of Rs. 871.34 Cr as on 30.06.2022. Further, the current ratio stood comfortable at 2.27 times as on March 31, 2022 as compared to 4.45 times as on March 31, 2021. However, the group is incurring continuous losses as the projects are in construction stage. Acuité draws comfort from the promoter's regular fund infusion into the business. Acuité believes that going forward the group's liquidity position will remain adequate in the near to medium term on account of presence of escrow accounts to ensure timely repayment upon stabilization of business.

Outlook: Stable

Acuité 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.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	10.67	14.65
PAT	Rs. Cr.	(83.29)	(26.99)
PAT Margin	(%)	(780.83)	(184.26)
Total Debt/Tangible Net Worth	Times	542.89	89.78
PBDIT/Interest	Times	0.27	0.51

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of 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>
- 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Oct 2021	Proposed Non Convertible Debentures	Long Term	150.00	ACUITE B Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Edelweiss Financial Services	Not Applicable	Non-Convertible Debentures (NCD)	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE B Stable Reaffirmed

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About Acuité Ratings & Research

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