

## Press Release

Sonam Builders

May 08, 2023



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	105.00	ACUITE BBB-   Stable   Assigned	-
Bank Loan Ratings	102.00	ACUITE BBB-   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	207.00	-	-

### Rating Rationale

Acuite has assigned and reaffirmed a long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.207 Cr. bank facilities of Sonam Builders. The outlook is '**Stable**'.

#### Rationale for Reaffirmation

The rating reaffirmation takes into account comfortable liquidity profile of the firm on back of higher promoter's contribution. It also draws comfort from the firm's over 20 years of presence in the real estate business supported by experienced management. The firm has two ongoing projects, 'Indraneel' with total saleable area of 1,34,968 sq. ft. and 'Indraprastha' with total saleable area of 1,45,031 sq.ft. which are at a very nascent stage of completion. The rating, however, is constrained by significant project completion risk and susceptibility to real estate cyclicity and regulatory risks.

#### About the Company

Sonam Builders is a partnership firm incorporated in the year 1997 by Mr. Mithalal R Jain and Mr. Bharat M. Jain, the father and son duo. The firm undertakes residential real estate projects in Mira-Bhayandar area. The business was started as a proprietorship concern in 1991. The firm, so far has done 8 real estate projects in Bhayandar area with total construction area of over 45 lakh sq. ft.

#### Analytical Approach

Acuite has considered the standalone financial and business risk profiles of Sonam Builders to arrive at the rating.

#### Key Rating Drivers

#### Strengths

##### Experienced management and established track record of operations

Sonam Builders was incorporated in 1997 by Mr. Mithalal Jain and Mr. Bharat Jain. Mr. Mithalal Jain has more than 2 decades of experience in the real estate business. He initially started the business as a proprietorship in 1991. Mr. Bharat Jain has also successfully executed various

projects over a span of 20 years. Sonam Builders so far has done 8 real estate projects in Bhayandar area with total constructed area of more than 45 lakhs sq. ft. Of late, the firm completed its Indraprasth project in 2019. The project is located in Bhayandar area and has ~468 flats spread across the saleable area of over 6.65 lakh sq. ft. The firm has also started its construction on its project 'Indraneel' located in Bhayandar with around 162 flats spread across 1.35 lakhs sq. ft. and has a upcoming project 'Indraprastha – D wing (Opulence)' with a saleable area of around 1.45 lakhs sq. ft.

Acuite believe extensive experience of promoters and established track record would help the firm even going ahead.

### **Comfortable Liquidity Profile driven by high promoter contribution**

The company has two on-going projects, Indraneel and Indraprastha -D wing. For the Indraneel project, 15.45% area is sold and the project is expected to be completed by March 2026. The funding of the project cost incurred till January 2023 is 52.85% through promoter's contribution, 30.45% through bank borrowing and customer advances of 16.66%.

For the Indraprastha (D Wing-Opulence) project, the construction started in March 2023 and the company is yet to launch its sales. The funding of the project cost till January 2023 is done through promoter's contribution of Rs. 51.69 crore. Further, for both the projects, there are no repayments of any debt till FY2025.

Acuite thus expects SB's liquidity profile to remain stable on account of expected sales and collection traction in Indraneel Project.

## **Weaknesses**

### **Project execution risk**

The company has two on-going projects. For the Indraneel project, 15.45% area is sold and the project is expected to be completed by March 2026. For the Indraprastha (D Wing-Opulence) project, the construction started in March 2023 and the company is yet to launch its sales. The total cost left to be incurred for the Indraneel project is Rs.147.56 crore and for the Indraprastha (D wing-Opulence) project, the cost left to be incurred is Rs. 185.00 crore.

However, SB has completed 8 projects in the same area and is an established brand in the Bhayander area which acts as a mitigating factor against demand risk. The entity has already received in principle sanction for the required debt for Indraprastha project and debt tie-up for Indraneel project has been done thus reducing funding risk.

### **Susceptibility to real estate cyclicity and regulatory risks and high geographical concentration**

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 real estate industry are cyclical in nature of business like drop in property prices and interest rate risk, among others, which could affect the operations. Sonam Builders 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 significantly reduce prices to augment sales growth. Further, the industry is exposed to regulatory risk, which is likely to impact players like Sonam Builders, thereby impacting its operating capabilities. The firm is also exposed to high geographical concentration as its all the projects are concentrated in Bhayandar area in Thane district. Thus, any negative development in this area could hurt the overall operations and project planning of the firm.

## Rating Sensitivities

- Inability to sell inventory at estimated price
- Timely Completion of the projects

## Material covenants

None

## Liquidity Position

### Adequate

The liquidity profile of the company is expected to be adequate on account of adequate cushion between repayments and cash inflows. The promoter has also infused funds for the projects. The DSCR is expected to be in the range of 2.68-3.97 times in medium term. The total cost of Indraneel project is Rs. 182.86 crore, out of which the cost funded through bank debt is expected to be Rs. 90.00 crore for which the debt tie-up is completed and there has been infusion of funds by promoter of Rs.47.22 crore. The total cost of Indraprastha project is Rs. 236.69 crore , out of which the cost to be funded through bank debt is Rs. 115 crore for which in-principle approval has been received and there has been infusion of funds of Rs.51.69 crore. There are no repayment obligations during FY2023-2025.

## Outlook: Stable

Acuité believes that the Sonam Builders would maintain 'Stable' outlook over a medium term on the back of experienced management, long track record of operations, low project risk and new upcoming projects being launched. The outlook may be revised to 'Positive' in case of higher-than-expected new bookings. Conversely, the outlook may be revised to 'Negative' in case of any undue delay in selling of inventory thereby impacting liquidity position

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	92.26	97.14
PAT	Rs. Cr.	11.17	4.16
PAT Margin	(%)	12.11	4.28
Total Debt/Tangible Net Worth	Times	1.38	1.46
PBDIT/Interest	Times	2.04	1.32

## 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>
- Application Of 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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of

the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Mar 2022	Proposed Bank Facility	Long Term	22.22	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	21.78	ACUITE BBB-   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	58.00	ACUITE BBB-   Stable (Assigned)
09 Nov 2021	Term Loan	Long Term	21.78	ACUITE BBB-   Stable (Assigned)
	Proposed Bank Facility	Long Term	22.22	ACUITE BBB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	102.00	ACUITE BBB-   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB-   Stable   Assigned
Central Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	90.00	ACUITE BBB-   Stable   Assigned

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### About Acuité Ratings & Research

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