

Press Release

Hazel Realty Private Limited

December 09, 2021



Rating Assigned

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	30.00	30.00	Provisional ACUITE BBB- Stable Assigned	
Total	-	30.00	-	-

Rating Rationale

Acuité has assigned its long-term rating of '**PROVISIONAL ACUITE BBB-**' (**read as Provisional ACUITE Triple B 'minus'**) on the Rs. 30.00 Cr Proposed Non-Convertible Debentures (NCDs) of Hazel Realty Private Limited (HRPL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned considers the established market presence of the promoter group in the real estate market, the extensive experience of the promoters, improvement in sales velocity and continued business and financial support from Pragnya Fund. These rating strengths are partly offset by geographical concentration in the revenue profile, past delays in the project completion and susceptibility to cyclical inherent to real estate industry.

The rating on the Rs.30.00 Cr NCDs is provisional and the final rating is subject to (pending steps/ documentation):

1. Receipt of the No-objection Certificate (NOC) from the existing lender i.e. ICICI Bank Limited after satisfaction of debt.
2. Receipt of No Due Certificate from the existing lender i.e. ICICI Bank Limited
3. Appointment of a SEBI registered Debenture Trustee
4. Receipt of the executed Debenture Trust Deed
5. Receipt of the executed Guarantee Document
6. Opening of Escrow Account in accordance with the Term sheet
7. Confirmation from Trustee regarding the compliance with all the terms and conditions

About the Company

Based in Chennai (Tamil Nadu) and incorporated as a private limited company in 2010, Hazel Realty Private Limited (HRPL) is engaged in developing residential units in Chennai, Tamil Nadu. The company was incorporated under the name 'VGN Pragnya Realty Private Limited' as a joint venture between VGN Group (well-known name in Chennai Real Estate Industry) and Pragnya Fund (Mauritius Based Private Equity Fund).

In 2014, Pragnya Fund purchased the shares of VGN group to the extent of 26 percent of total shares of HRPL leading to Pragnya Group holding 100 percent shares in the HRPL. The company was then renamed to current name of 'Hazel Realty Private Limited'.

The shareholding structure of the company has been changed and currently, Guna

Developers Limited and Badrinath Commodity Private Limited are the ordinary shareholders and Pragnya Fund II is the shareholder in Class A equity shares with 95% voting rights. Further, Guna Developers Limited is a Group company of Pragnya Group. Hence, effectively Pragnya Group has 99.4% economic interest and voting rights in HRPL.

The Company is developing a residential apartment project named as "Hazel" spread across 5.67 acres of land located at Paruthipattu Village, Poonamallee Taluk, Thiruvallur District, Chennai. The residential units' size ranges from 568 sq. ft to 1647 sq. ft and the project consists of 1-BHK, 2-BHK and 3-BHK apartments. Hazel has a total of 781 units across 4 blocks (6 towers), each block comprising of a basement, stilt & 14 floors. The project has been successfully launched during the year 2012 in a phased manner and 613 units were booked as of September, 2021 amounting to 7,04,624 sq. ft out of 9,13,098 sq. ft. The value of the sold area stood at Rs.247.81 Cr with current receivables amount of Rs.29.69 Cr. The unsold unit stood at 168 units amounting to 2,08,474 sq. ft. with an estimated revenue of around Rs.81.30 Cr at the minimum sales price agreed for the saleable area as per the term sheet.

About the Group

Incorporated in 2003, Pragnya Fund, is a real estate private equity firm focused on developing markets in India and Sri Lanka through its real estate opportunity funds Pragnya Fund I and Pragnya Fund II. The funds are managed by Mr. Subba R Dukkipati and Mr. Gopal Menon. Pragnya raised its first fund, "Pragnya Fund 1" in 2005-06 with investments into 6 projects across India and Sri Lanka. Later, in 2012, Pragnya successfully raised its second fund "Pragnya Fund II" and currently is invested into 5 projects in South India and Sri Lanka. Pragnya raised its third major fund Pragnya South City Opportunity Fund in 2016-17 towards development of township in Chennai, Tamil Nadu. The projects are being developed in joint ventures with reputed local partners, achieving diversification in both products and geographies. Pragnya Group (including all the project specific entities formed) is in the process of completing over 15 million sq. ft. of Residential, Office Space, Showroom/Retail Space, SEZ, Townships, etc.

Analytical Approach

To arrive at rating, Acuité has considered the standalone business and financial risk profile of Hazel Realty Private Limited.

Key Rating Driver

Strengths

- Track record of Pragnya Group in the real-estate sector; promoter's industry experience and established regional presence**

Incorporated in 2010, Pragnya Fund II is a Mauritius-based private equity fund with the principal objective of investing in property development projects through designated special purpose vehicles domiciled in India and Sri Lanka. The fund has been established to enable selective institutional investors, corporate and high net worth individual investors to invest in opportunities within the real estate sector in India and Sri Lanka. Pragnya Fund II is currently invested in Project Platinum, Colombo, Project Hazel, Chennai, Project Habitat Crest, Bangalore, Project Bridge Country, Rajahmundry amongst others. The directors of the company are Mr. Menon Gopal, Mr. Ramtoola Ashraf and Mr. Rungapadiachy Kamalam Pillay. Pragnya Fund II is the part of Pragnya Group, managed by Mr. Subba R Dukkipati and Mr. Gopal Menon. The managing partners of the group has more than 2 decades of experience in the real estate industry. Acuité believes that promoters' extensive industry experience and leveraging of its brand equity will lead to low implementation and moderate demand risk associated with on-going projects of HRPL over the medium term.

- Strong support from Pragnya Group**

HRPL's on-going projects are under the directions of the Pragnya group as the same will provide its expertise in the execution of the project. Pragnya Group, besides the operational support also has been subscribing to the unsecured NCDs of Rs.66.90 Cr issued by HRPL. The unsecured NCDs were issued in the year 2014-16. The group has been extending the repayment terms of the unsecured NCDs and also waiving off the interest of the same over the past years to support the cash flows of the HRPL. These NCDs are subscribed by the Pragnya Fund II and consists of Promoters infused fund. The unsecured NCD's tenure is expected to be extended over the years along with waiver of the interest obligation on the same to support the financial profile of HRPL. Besides, subscribing to the unsecured NCDs, group companies of Pragnya has also provided intercorporate borrowings (ICBs) to an extent of Rs.13.44 Cr as of March 31, 2021 to HRPL.

Besides, Pragnya Fund II and Pragnyacrest Properties Private Limited is expected to extend a corporate guarantee and shortfall undertaking for the Proposed secured NCDs to be issued by HRPL. Acuité believes that the presence of operational and financial support from the Pragnya Group is likely to augment the business and financial risk profile of the company.

- Presence of escrow account and sweep ratio to ensure timely repayments**

The investors to the NCDs are expected to benefit from the escrow account and the sweep mechanism for servicing principal, interest, and other obligations payable towards the arrangement. HRPL's all sale proceeds are rerouted through escrow account to monitor and use the collections from the sold and unsold units. The debenture trustee shall have sole and exclusive charge over the NCDs escrow Account in the name of the Issuer. The investors can draw comfort from the presence of Interest Service Account (ISA) and Interest Reserve Service Account (ISRA). HRPL has to maintain an ISA equivalent to for 1 months' interest and ISRA equivalent to 2 months' interest in a fixed deposit in the NCD Escrow Account. The lender has right to utilize 100 percent collection from receivables of sold units standing at Rs.29.69 Cr as of September'2021 and 50 percent collections from new sales which is estimated to be around Rs.81.30 Cr. The sales of units are expected to be completed by March'24 ensuring the NCDs would be repaid by the same period on account of the sweep clause. HRPL needs to maintain 'security cover' of 2x the value of outstanding investment. In case the security cover drops below the requisite 2.00x, HRPL shall make good the shortfall repayment of the outstanding Face Value and/or by providing additional security in favor of the Trustee. Acuité believes that the presence of adequate liquidity buffers and the trustee oversight mechanism will strengthen the payment structure of the proposed NCDs.

- Low project risk profile**

The proposed NCDs would be issued by private placement and the term sheet has been signed between the Arranger (Trust Investment Advisors Private Limited) and the Issuer (Hazel Realty Private Limited). The closing date is expected to be in the first half of December' 2021 leading to low funding risk. The project construction is completed for all the 6 towers with some minor finishing work pending for Tower A, resulting in low implementation risk. The major project cost will be towards the marketing, administration and other cost. The real estate market has been growing across the country and the micro market at Avadi- Poonamallee Road, Chennai and from the on-going financial year FY2022 sales data, the sales velocity has been improved for the project in comparison to the past years. With 78 percent of the total residential units booked as of September'2021, the demand risk of the project is moderate. Acuité believes that the project risk profile of HRPL will remain low over the medium term.

Weaknesses

- Past Delays in the project completion; Extension in RERA**

HRPL is developing a residential apartment project named as "Hazel" spread across 5.67 acres of land located in Chennai. The residential unit's size ranges from 568 sq. ft to 1647 sq. ft and the project consists of 1-BHK, 2-BHK and 3-BHK apartments. The project was successfully launched during 2012 but was delayed in comparison with the estimated completion period.

The delays initially were on account of lack of focus on project by VGN Group on account of multiple on-going projects and it was one of the reason, Pragnya group acquired the project completely in 2014. Further, the project constructions were disrupted on account of events such as floods, demonetization, cyclone, implementation of GST, lack of uninterrupted supply of raw materials, project cost overruns etc. However, the company compensated the customers for the delays in the project. The project has received completion certificate from the local development authority for all the towers except for Tower A. The RERA validity for Tower A has expired on 14th November 2021, the management has filed an application with Tamil Nadu RERA department for extension as some minor (finishing work) is pending for the same.

Acuité believes that any further delay could impact the project risk profile of HRPL over the near to medium term.

- **High geographical concentration risk in revenue profile with upcoming projects**

HRPL's on-going project are located in Avadi- Poonamallee Road, Chennai; with no plans to diversify in the medium term. Acuité believes that HRPL 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.

- **Susceptible to real estate cyclical 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. HRPL is exposed to the risk of volatile prices on account of demand-supply mismatches in the Chennai 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 HRPL, thereby impacting its operating capabilities. However, Acuité believes that from the customer demand for the project being mitigates the risks to an extent on account of improved sales velocity in current financial year.

ESG factors relevant for rating

Corporate governance factors are highly material for the real estate industry. Regulatory compliance, board oversight and business ethics are key governance issues for this industry. Moreover, corruption risks in real estate activities, shareholders' rights, board diversity & independence, financial audit & control and board & management compensation have a significant impact on the governance performance of real estate companies. Labor management particularly such as employment quality, employee safety, training & development, are significant social factors in the real estate business. Additionally, the other key material social issues are community support & development, product quality & responsibility and human rights. The activities of a real estate entity have a moderate impact on the environment that include material issues such as energy, water efficiency and waste management.

HRPL's board comprises 4 directors with no female director and independent directors. The entity has policies in place for water and material efficiency; it plans for reusage of sewage water and solid waste after treatment for gardening and other activities in its residential units. On the social aspect, the company has provided accommodation near the project site for the construction workers who are mostly from outside the city. While we note that there were complaints in RERA against the developer in 2019-20, the company has settled such complaints through suitable compensation to the customers.

Liquidity Position: Adequate

HRPL's liquidity is expected to be adequate marked by a presence of escrow account in the

project to capture the collections from sold and unsold units, presence of cash sweep ratio mechanism for timely repayment of proposed NCDs obligations, Interest service reserve account (ISRA) for 2 months of interest coupled with moderate DSCR expected until FY2024. Moderate metrics on customer advances and sales against majority of debt availed is expected to lead to DSCR of around 1.95x times in base case scenario and 1.81x times in stress case scenario. HRPL is mainly dependent on collection of receivables from sold units, NCD proceeds and sale proceeds from unsold units for project funding and NCDs repayment obligation. Out of the Rs.29.69 Cr of receivables from sold units as of Sep'21, Rs.14.25 Cr (around 48 percent) pertains to receivables from units booked in calendar year 2021 with balance Rs.15.44 Cr receivables from booking done in year 2012-2020. Timely collection of these receivables from old units will be key monitorable for the assessment of liquidity position of HRPL. Acuité believes that the liquidity position of the company to remain adequate over the medium term on account of structured payment mechanism in proposed NCDs, improvement witnessed in the sales velocity in current year and strengthening of liquidity profile by the expected corporate guarantee and shortfall undertaking to be extended by the Pragnya Fund II and Pragnyacrest Properties Private Limited as a security towards the NCDs issue.

Rating Sensitivities

Positive

- 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.

Material Covenants

None

Outlook: Stable

Acuité believes that the HRPL will maintain 'Stable' business and financial risk profile over the medium term on the back of experienced promoters, moderate 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 HRPL's liquidity.

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	22.51	20.08
PAT	Rs. Cr.	(16.58)	(15.92)
PAT Margin	(%)	(73.65)	(79.28)
Total Debt/Tangible Net Worth	Times	(3.90)	(7.69)
PBDIT/Interest	Times	(1808.44)	(1303.90)

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

BRICKWORK Ratings vide its press release dated April 09, 2021 had denoted the rating of Hazel Realty Private Limited (HRPL) as "ISSUER NOT CO-OPERATING" on account of lack of adequate information required for monitoring of ratings

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. Absence of secured charge on the collections from the sales of units through the escrow account.
5. 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 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.

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	16.00	Not Applicable	30.00	30.00	Provisional ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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