

## Press Release

### Vertex Vega Developers LLP

January 07, 2022

### Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>Bank Loan Ratings</b>	100.00	ACUITE BBB-   Stable   Assigned	
<b>Total</b>	100.00	-	-

### Rating Rationale

Acuite has assigned its long-term rating of 'ACUITE BBB-' (read as ACUITE Triple B minus) on the Rs. 100.00 Cr bank facilities of Vertex Vega Developers LLP (VVDL; part of the Vertex Group). The outlook is 'Stable'.

The rating assigned takes into cognizance the experience of the promoters in the real estate sector and moderate project risk. These strengths are partially offset by the geographical concentration risk in its revenues and the inherent cyclicity in real estate industry.

### About the Group

Incorporated in 2019, Vertex Vega Developers LLP (VVDL) is a Hyderabad (Telangana) based residential real estate developer, promoted by Mr. Vegesna Venkata Rava Varma and other family members. VHPL is also into the development of real estate projects in Telangana and Andhra Pradesh. VVDL is presently developing a residential project in Hyderabad with a saleable area of 9.23 lakh square feet to construct 534 flats. Of this VVDL's share consists of 6.76 lakh square feet consisting of 283 flats.

Incorporated in January 2000, Vertex Homes Private Limited (VHPL) is a Hyderabad (Telangana) based residential real estate developer, promoted by Mr. Vegesna Venkata Rava Varma and Mr. Chakka Guru Muralli Mohan. VHPL is into the development of real estate projects in Telangana and Andhra Pradesh. VHPL is presently developing 4 residential projects in Hyderabad with a cumulative saleable area of 51 lakh square feet to construct 1500 flats and 315 Villas. Of this VHPL's share consists of 25.33 lakh square feet involving 778 flats and 171 Villas.

### Analytical Approach

Acuite has consolidated the financial and business risk profiles of VHPL with Vertex Vega Developers LLP (VDL), hereinafter, referred to as "Vertex Group" on account of their common management and brand name, operational and financial linkages. Extent of Consolidation: Full.

### Key Rating Drivers

#### Strengths

#### **Experienced promoters, demonstrated track record and favorable location of the on-going projects**

The group is promoted by Mr. Vegesna Venkata Rava Varma and Mr. Chakka Guru Muralli who have more than 2 decades of experience as a real estate developer through various projects executed under the group. Vertex group consists of other group entities as well named as 'Vertex Nirman LLP' and 'Vertex Siri Developers LLP' which are engaged in similar line of business. The vertex group as a whole has completed more than 6 million square feet of residential and commercial projects and plans to add further 5-6 million square feet of

residential space by way of its on-going and upcoming projects. Alongside, the brand equity of 'VERTEX' is enjoys a reputation in the Hyderabad (Telangana) region. With a successful track record in past projects, the group has the intent of executing larger residential projects. The group, with its strategic positioning has created brand equity and is now among the top 15 real estate developers in Telangana under the affordable segment. Besides, the project is located strategically in the planned areas of Hyderabad (Telangana). The location of the projects is very well developed both residentially and commercially with a lot of scope for further development. Commercial complexes, including supermarkets, schools, restaurants, hospitals, fitness centers and banks, are abundant in the closest vicinity of the proposed location. Acuité believes that the promoters have demonstrated good execution capabilities with a reputation for quality and timely completion. Promoters' industry experience is expected to support in a successful sale of the units in the on-going and upcoming projects.

### **Moderate project risk**

The group is presently developing 5 residential projects (under the name of 'Kinston park', 'Viraat', 'Bougainvilla' and 'Pristine' under VHPL and one under VVDL named '33-West'. The total saleable area of the aforesaid projects is 51 lakh square feet with a total project cost of Rs.1,943 Cr and total saleable value of Rs.3,820 Cr. Of this, Vertex's share is a saleable area of 32 lakh sqauve feet and saleable value of Rs.2,300 Cr. It is expected to be funded through 21 percent of debt and promoter contribution each (in form of equity and unsecured loans) and remaining through customer advances. The funding risk is moderate as the group has submitted the proposal to the lenders. The promoters are high net worth individuals and promoter companies being debt-averse further mitigate the funding risk. Moreover, promoters will be supporting the project in case of any exigencies and the group will be maintaining a Debt service reserve account (DSRA) of minimum 3 months of principal + interest once the debt is availed. The group has completed around 14 percent of construction as on November 30, 2021 against which it has already received healthy bookings of 29 percent from and received customer advances of 17 percent as a percentage to total saleable value. While there are inherent project risks being in nascent stage of construction and with funding yet to be tied up, the risks are largely mitigated by the aforementioned facts. Acuité believes that timely funding and receipt of customer advances will be a key factor for this group.

### **Weaknesses**

#### **Geographical concentration risk and intense competition in the industry**

The group through its promoter companies has mostly executed its past projects Hyderabad and Vijayawada only. Moreover, the group is executing all the current projects in Hyderabad. The group would remain geographically concentrated until any further diversification to a different state. Furthermore, the group would continue to remain exposed to intense competition from larger players in Telangana like Jayabheri group, Aparna Constructions and estates Pvt Ltd, Prestige Group, My Home group, Kalpataru Group, mantra Group, Lodha group amongst others.

#### **Inherent cyclicity in Real Estate Sector**

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.

#### **ESG Factors Relevant for Rating**

Not Applicable

#### **Rating Sensitivities**

- Timely realization of customer advances pending from sold inventory
- Lower than expected sales traction leading to increased dependence on debt
- Sharp decline in cash flow due to slower customer advances or delays in project execution
- Weakness in the financial risk profile due to higher-than-expected borrowing.

## Material covenants

None

## Liquidity: Adequate

Acuité believes that the group will maintain 'Stable' business risk profile over the medium term on the back of experienced promoters in the real estate industry. The outlook may be revised to 'Positive' in case of higher-than-expected advances from customers resulting in adequate cash flows for early completion of the project and prepaying the debt. Conversely, the outlook may be revised to 'Negative' in case of any undue delay in completion of the project, or less-than-expected bookings and advance leading to stretch on its liquidity.

## Outlook: Stable

Acuité believes that the group will maintain 'Stable' business risk profile over the medium term on the back of experienced promoters in the real estate industry. The outlook may be revised to 'Positive' in case of higher-than-expected advances from customers resulting in adequate cash flows for early completion of the project and prepaying the debt. Conversely, the outlook may be revised to 'Negative' in case of any undue delay in completion of the project, or less-than-expected bookings and advance leading to stretch on its liquidity.

## Other Factors affecting Rating

None

## About the Rated Entity - Key Financials

'Not Applicable' as the operations are at nascent stage.

## 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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

## Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

## Rating History

Not Applicable

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE BBB-   Stable   Assigned

## Contacts

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### About Acuité Ratings & Research

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