

Press Release

Vertex Vega Developers LLP

April 07, 2023



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	100.00	-	-

Rating Rationale

Acuite has reaffirmed 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)**. The outlook is '**Stable**'.

Rationale for rating

The rating reaffirmation takes into cognizance the established track record of operations of more than two decades and experience of the promoters in the real estate sector. Further, the rating factors in the successful completion of various projects in the past by the Vertex Group and the locational advantage of the current on-going project. However, the above mentioned strengths are partially offset by the geographical concentration risk as all on-going projects of the group are in Hyderabad. Further, the rating is also constrained by inherent cyclicity in real estate industry.

About Company

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

About the Group

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

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité 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 ongoing 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' 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 on-going projects are located strategically in the planned areas of Hyderabad (Telangana). The location of the projects are 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') under JDA. The total saleable area of the aforesaid projects is 51 lakh square feet with a total project cost of Rs. 2,027 Cr and total saleable value of Rs.3,818 Cr. Of the total saleable area, Vertex's share is 32 lakh square feet and saleable value of Rs.2,300 Cr. The cost of the project 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 already submitted the proposal to the lenders for bank finance. 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 42 percent of construction as on January 31, 2023 against which it has already received healthy bookings of 81 percent and received customer advances of 51 percent as a percentage to total saleable value. While there are inherent project risks as 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 rating sensitivity.

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

Rating Sensitivities

- Timely funding tie-up and 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

Material Covenants

None

Liquidity Position: Adequate

The group is expected to have adequate liquidity which is to be supported by way of a secured payment mechanism with Escrow account, DSRA for 3 months of interest + principal and DSCR > 3x in base case scenario.

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

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	111.94	120.18
PAT	Rs. Cr.	8.69	7.68
PAT Margin	(%)	7.76	6.39
Total Debt/Tangible Net Worth	Times	0.98	0.66
PBDIT/Interest	Times	5.31	6.43

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

None

Any Other Information

None

Applicable Criteria

- 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>
- 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

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jan 2022	Proposed Long Term Loan	Long Term	100.00	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 Loan	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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