Press Release

Pragnya South City Projects Private Limited

January 19, 2022

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.00	ACUITE BB+ | Stable | Assigned	-
Total Outstanding Quantum (Rs. Cr)	50.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has assigned its long-term rating of **'ACUITE BB+' (read as ACUITE Double B 'Plus')** on the Rs. 50.00 Cr bank loans of Pragnya South City Projects Private Limited (PSCPPL). The outlook is **'Stable'**.

Rationale for rating assigned

The rating assigned considers the established market presence of the promoter group "Pragnya Group" in the real estate market, extensive experience of the promoters, improvement in sales velocity witnessed in 2021 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 Phase 2A project completion, nascent stage of Phase 2B project and susceptibility to cyclicality inherent to real estate industry.

About the Company

Based in Chennai (Tamil Nadu) and incorporated as a private limited company in 2006, Pragnya South City Projects Private Limited (PSCPPL) is engaged in developing residential apartment, commercial space and intergrated township in the real estate sector. Located at Mount Poonamallee Road, Manapakkam, Chennai, PSCPPL is developing a township project on approx. 90 Acres of land. The project site is located near the Old Mahabalipuram Road (OMR).

The company was renamed from "L&T South City Projects Private Limited" to "Pragnya South City Projects Private Limited" post purchase of shares of Larsen & Toubro (L&T) by Pragnya Group in March, 2017 for Rs.190 Cr. PSCPPL is an unlisted private subsidiary company of Pragnya Group.

About the project

PSCPPL is developing a integrated township project named as "Pragnya Eden park" spread across 91.28 acres of land located behind Siruseri, Sipcot IT Park, OMR – Chennai, Tamil Nadu. The project is one of the first and few integrated residential townships in Chennai and is being implemented in multiple phases - comprising residential apartments, villas, row-houses, school, state–of–the-art recreational facilities, shopping mall and other essential services.

Phase 1: It is spread across a total land area of 13.85 acres comprising of 654 residential units has already been completed, sold and handed over for occupation to its respective customers.

Phase 2A: It is spread across a total land area of 12.83 acres with a total saleable area of approx. 1.67 Mn sft spread across towers namely Almond, Peach, Marigold, Jasmine and Daffodil. The residential project comprises of total 1,288 units with 1BHK, 2BHK and 3BHK variant along with amenities like clubhouse consisting of Multipurpose hall, Gymnasium, Indoor games, Children's play area and swimming pool. The development is spread across 6 towers out of which construction has been completed for five towers. The tower "Daffodil" is an under-construction development which is currently in the basement stage and is envisaged to be completed by 2023.

Phase 2B: It is a proposed mixed-use development with residential and support retail space. It is spread across a total land area of 4.47 acres with a total saleable area of approx. 0.70 Mn sft spread across six towers. Phase 2B is currently at land stage. Further, major approvals for proposed residential development are yet to be obtained. The project is expected to launch in FY2023 and is expected to complete by FY2025. The residential units' size ranges from 918 sq. ft to 1086 sq. ft and the project consists of 2-BHK and 3-BHK apartments. Phase 2B has a total of 676 units across 4 towers. The project is expected to successfully launch during the year 2022-23 in a phased manner amounting to 6,89,630 sq. fts residential space and 12,486 sq. fts retail space. The project phase 2B has an estimated revenue of around Rs.384.78 Cr with total project cost around Rs.219.66 Cr.

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 Pragnya South City Projects Private Limited (PSCPPL).

Key Rating Drivers

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. Incorporated in 2015, Pragnya South City Opportunity Fund is a Mauritius-based private equity fund with the principal objective of investing in property development projects domiciled in India and Sri Lanka. The directors of the company are Mr. Naidu Narayana Reddy, Mr. Ajay Kumar Gopal, Mr. Francis O Haokip and Mr. Akshat Asit Pandya. Pragnya Fund II and Pragnya South City

Opportunity Fund 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 mitigation of project risk associated with on-going projects of PSCPPL to an extent over the medium term.

- **Strong support from Pragnya Group**

PSCPPL'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 subscribed to the unsecured NCDs of Rs.80.00 Cr issued by PSCPPL. The unsecured NCDs were issued prior to the year 2017-18. The group has been deferring the interest of the same over the past years to support the cash flows of the PSCPPL. These NCDs are subscribed by the Pragnya South City Opportunity Fund and Pragnya Fund II and consists of Promoters infused fund. The unsecured NCD's tenure and interest obligation is expected to be extended and differed over the upcoming years to support the financial profile of PSCPPL and will be repaid upon availability of surplus cash flows from projects. Pragnya Group is expected to infuse additional equity for completion of Phase 2A and equity of around Rs.60.00-70.00 Cr towards Phase 2B. 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.

- **Improvement in sales velocity in 2021**

The booking of Phase 2A was started from calendar year 2013. PSCPPL recorded sale of 125 units in 2013, 225 units in 2014 and 150 units in 2015. The sales have been deteriorating since 2016 until 2020 on account of various external factors such as natural calamities, global pandemic, etc. However, PSCPPL has been witnessing improvement in demand in current year 2021 with number of units sold as of November 15, 2021 standing at 65 units in comparison to 52 units in 2020. The absorption rate for Phase 2A stands at 63 percent as of November 15, 2021. The absorption rate is including the undeveloped tower "Daffodil" with 288 units out of total 1288 units in Phase 2A. The average realization per unit has also improved to Rs.4525/- per sq. fts in 2021 against Rs.4400/- per sq. fts in in 2020. Acuité believes that the project's demand risk profile will remain moderate over the medium term on account of improvement in demand. However, the demand could be impacted by any further waves of Corona virus in near to medium term.

Weaknesses

- **Past Delays in the project completion**

The Company is developing an integrated township project named as "Pragnya Edenpark" spread across 91.28 acres of land located behind Siruseri, Sipcot IT Park, OMR – Chennai, Tamil Nadu. The project phase 2A was successfully launched during 2015 but was delayed from estimated completion period. The tower "Daffodil" is an under-construction at basement stage and is expected to be completed by 2023. The delays initially were on account of change in civil contactor. Further, the project constructions were disrupted on account of events such as floods and cyclone in the region, implementation of GST, lack of uninterrupted supply of raw materials, impact of covid-19 pandemic etc. Acuité believes that any further delay could impact the project risk profile of PSCPPL over the near to medium term.

- **Presence of project phase 2B in nascent stage of construction**

PSCPPL is expected to utilized the funds received from the proposed term loan of Rs.180.00 Cr towards the project construction cost of phase 2B around Rs.220.0 Cr. The expected total saleable area stands at 7.02 lakhs sq. fts across 6 towers. The project phase is yet to apply and receive the RERA certificate, Planning permit and Building permit for all the towers. The project development work is expected to begin in FY2023 and expected to be completed in FY2025. The funding risk is moderate as PSCPPL has submitted the proposal to SBI and the same is expected to be concluded by the month of January'2022. The funds are expected to be disbursed within current financial year FY2022 along with infusion of promoters funds. Acuité believes that timely receipt of regulatory approval, infusion of promoter's fund, sanction and disbursement of external debt will be critical for funding and execution of the projects.

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

PSCPPL's on-going project are located near the Sipcot IT Park, Chennai (Tamil Nadu); with no plans to diversify in the medium term. Acuité believes that PSCPPL 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 cyclicality 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. PSCPPL 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 PSCPPL, thereby impacting its operating capabilities. However, Acuité believes that from the customer demand for the project phase 2A mitigates the risks to an extent on account of improved sales velocity in current financial year.

Rating Sensitivities
Positive

- Timely completion of the project development.
- 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.
- Any delays in project completion.

Material covenants
None

Liquidity Position: Adequate

PSCPPL's liquidity is expected to be adequate marked by a presence of expected 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 term loan obligations, Debt service reserve account (DSRA) for 3 months of interest and one quarter principal obligation coupled with moderate DSCR expected until FY2028. Moderate metrics on customer advances and sales against majority of debt availed is expected to lead to DSCR of around 2.63x times in base case scenario and 2.18x times in stress case scenario. PSCPPL is dependent on term loan proceeds, contribution from promoters and sale proceeds from unsold units for project funding and term loan repayment obligation. The liquidity profile is also supported through presence of vacant freehold land bank of total 50.13 acres comprising of land parcel of 3.16 acres, 21.78 acres and 25.19 acres. Acuité believes that the liquidity position of the company to remain adequate over the medium term on account of expected structured payment mechanism in proposed term loans and improvement witnessed in the sales velocity for phase 2A in current year.

Outlook: Stable

Acuité believes that the PSCPPL 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 PSCPPL's liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	41.07	44.10
PAT	Rs. Cr.	(24.42)	(20.63)
PAT Margin	(%)	(59.45)	(46.79)
Total Debt/Tangible Net Worth	Times	2.26	2.15
PBDIT/Interest	Times	0.30	0.47

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
- 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
- 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:

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	50.00	ACUITE BB+ | Stable | Assigned

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About Acuité Ratings & Research

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