Press Release
Pragnya South City Projects Private Limited
August 11, 2023
Rating Upgraded

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

Rating Rationale

Acuité has upgraded the long-term rating to **ACUITE BB- (read as ACUITE double B minus)** from **'ACUITE C' (read as ACUITE C)** on the Rs.50.00 Cr bank loans of Pragnya South City Projects Private Limited (PSCPPL). The outlook is **'Stable'.**

Rationale for Upgrade

The rating upgrade is majorly on account of timely repayment of the its debt obligations including both interest and principal post March 2023. The rating also considers the extensive experience of the promoters and continued business and financial support from Pragnya Fund. However, these rating strengths are partly offset by past delays in the 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 integrated 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 an 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 an integrated residential township in Chennai and is being implemented in multiple phases:
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 multiple amenities. 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 and is envisaged to be completed by 2025.
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 FY2024 and is expected to complete by FY2027. The residential units' size ranges from 918 sq. ft to 1086 sq. ft consisting of 2-BHK and 3-BHK apartments. Phase 2B has a total of 676 units across 4 towers, with a total saleable area of 6,89,630 sq. fts residential space and 25,725 sq. fts retail space. The project has an estimated revenue of around Rs.429.01 Cr with total project cost around Rs.341.12 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 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 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.

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 22 percent construction status and is expected to be completed by 2025. 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. Further, the sales traction has been low in the completed towers of this phase. Acuité believes that any further delay in project completion or lower than expected sale traction 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.170.00 Cr towards the project construction cost of phase 2B around Rs.202.59 Cr. The expected total saleable area stands at 7.15 lakhs sq. fts across 6 towers. The project phase is yet to receive the RERA certificate, Planning permit and Building permit for all the towers. The project development work is expected to begin in FY2024 and expected to be completed in FY2027. The funding risk is moderate as PSCPPL has submitted the proposal to LIC and other NBFC and the same is expected to be concluded by the month of December 2023. 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.

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. 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

- Timely completion of the project development.
- Timely sale of the unsold inventory and realization of its customer advances.
- Deterioration in financial risk profile and liquidity due to reduction in customer advances, pent up inventory and lower than expected average unit realization

Material covenants

None

Liquidity Position: Stretched

PSCPPL's liquidity is stretched marked by low sales velocity and cost overruns due to project execution delay. However, 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 term loan obligations, Debt service reserve account (DSRA) for 3 months of interest and one quarter principal obligation coupled with moderate DSCR expected until Q2FY2026 provide liquidity support. PSCPPL is dependent on term loan proceeds, contribution from promoters and sale proceeds from unsold units for project funding and term loan repayment obligation. Acuité believes that the liquidity position of the company to improve over the medium term on account of expected improvement in the sales velocity for the phase 2A in the 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 of 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 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	62.35	57.36
PAT	Rs. Cr.	(39.11)	(43.00)
PAT Margin	(%)	(62.72)	(74.96)
Total Debt/Tangible Net Worth	Times	2.63	2.14
PBDIT/Interest	Times	0.01	(0.17)

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
• 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. 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
18 Mar 2023	Proposed Bank Facility	Long Term	50.00	ACUITE C (Downgraded from ACUITE BB+ | Stable)
19 Jan 2022	Proposed Bank Facility	Long Term	50.00	ACUITE BB+ | 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	50.00	ACUITE BB- | Stable | Upgraded

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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.