

Press Release

S V Complexes LLP

February 09, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	120.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	120.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has assigned its long-term rating of 'ACUITE BBB-' (read as ACUITE Triple B 'Minus') on the Rs. 120.00 Cr bank facilities of SV COMPLEXES LLP (SVCL). The outlook is 'Stable'.

The rating assigned to the firm derives comfort from the extensive experience of the partners in the real estate sector and prime location of the asset. These strengths are partially offset by exposure to funding and project implementation risk and cyclical in the real estate industry.

About the Company

Established in August 2012, SV COMPLEXES LLP is a Hyderabad (Telangana) based commercial and residential real estate developer, promoted by Mr. Vijay Kumar Yerram along with other 11 partners. SVCL is a special purpose vehicle (SPV) formed by Vasavi Group. SVCL is presently developing a commercial project (under the name of 'VASAVI SKY CITY) at Gachibowli, Hyderabad, Telangana with a total saleable area of 27.65 lakh square feet to construct 625 units. Of this, SVCL's share consists of 16.48 lakh square feet consisting of 342 units. The total developer saleable area of the aforesaid projects is 16.48 lakh square feet with a total project cost of ~Rs.759.90 Cr and is expected to be completed by December 2024. It is expected to be funded through 16 percent of debt and promoter contribution 17 percent and remaining 67 percent through customer advances.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of SVCL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced promoters, demonstrated track record and favorable location of the ongoing project

The Vasavi group is promoted by Mr. Vijay Kumar Yerram who has more than 2 decades of experience as a real estate developer through various projects executed under the group.

The Vasavi group as a whole has completed more than 6 million square feet of residential and commercial projects and plans to add further 360 million square feet on-going projects under commercial and residential space. Alongside, the brand name of 'Vasavi' enjoys a reputation in the Hyderabad (Telangana) region with a successful track record in executing larger residential and commercial projects across Hyderabad. Besides, the project is located strategically in the prime location in Gachibowli, Hyderabad, a prominent IT office hub with a well-developed social infrastructure, which enhances the marketability of the project. Acuité believes that the promoters' experience in the real estate industry and improving demand for the commercial units in Hyderabad area are expected to support in successful sale of the units, and timely completion of the project.

Moderate project risk

The construction of 'Vasavi Sky City' started in December 2019 and is expected to be completed by December 2024. The total developer saleable area of the aforesaid project is 16.48 lakh square feet with a total project cost of ~Rs.759.90 Cr. It is expected to be funded through Rs.120 Cr (~16 percent) of debt and promoter contribution 129.53 Cr (~17 percent) and remaining Rs.510.37 Cr (~67 percent) through customer advances. As on September 30, 2021 SVCL incurred a total cost of about Rs. 239.66 Cr (~32 percent) as compared to the total project cost of ~Rs. 759.90 Cr. SVCL has completed around 35 percent of construction as on September, 2021 against which it has already received healthy bookings of 37 percent and received customer advances of 28 percent as a percentage to total saleable value. The promoters have brought in Rs.129.53 Cr (~ 100 percent of their contribution) and received customer's advances of Rs.143.91 Cr (~ 28 percent of their contribution) as of March 2021. As on September 30, 2021, The Company has sold 6.23 lakh square feet (sft). Out of 16.48 lakh square feet (sft), this is 38 per cent of total space. For the next phase of work completion, the company will be using customer advances as planned to avail construction finance. Acuité believes that while there are inherent project risks being in moderate stage of construction and with funding yet to be finalised, the risks are largely mitigated by the aforementioned facts by the receiving healthy bookings and adequate advances received from customers leaves a larger scope for financial flexibility and charging premium for sale of the unsold space.

Weaknesses

Single project concentration risk

The firm's cash inflows are entirely dependent on the booking level and the collection efficiency of Vasavi Sky City project as it is the sole commercial project being developed by the SVCL currently. Hence, the firm would be dependent on adequate sales and timely collections from this project for servicing its debt obligations.

Geographical concentration risk and intense competition in the industry

The group through its promoter companies has mostly executed its past projects Hyderabad 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. The real estate industry in India is highly fragmented with most of the real estate developers, 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. 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

- Realization of customer advances pending from sold inventory in time

- Lower than expected sales traction leading to increased dependence on debt
- Sharp decline in cash flow, by slackened salability of project or delays in project execution
- Weakening of the financial risk profile due to higher-than-expected borrowing

Material covenants

None

Liquidity Position: Adequate

SVCL has adequate liquidity position marked by the moderate customer advances to its maturing debt obligations. Liquidity is supported by good salability as well as collections in the ongoing project and external borrowing is only 16 percent of project cost. SVCL 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 > 2 times till project completion. SVCL is mainly dependent on customer advances for its project funding and debt repayment. Acuité expects SVCL is expected to continue generating good surplus cashflows from its unsold inventory in the near to medium term and adequate accruals, to be sufficient to meet its repayment obligations as well as incremental construction costs.

Outlook: Stable

Acuité believes that the SVCL 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

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	16.85	46.32
PAT	Rs. Cr.	0.88	3.87
PAT Margin (%)	(%)	5.21	8.35
Total Debt/Tangible Net Worth	Times	0.51	0.77
PBDIT/Interest	Times	18.77	27.34

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
<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
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	110.00	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

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