

Press Release

Boorugu Infra Projects Private Limited

March 03, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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 loans of Boorugu Infra Projects Private Limited (BIPPL). The outlook is **'Stable'**.

Rationale for rating assigned

The rating assigned considers the established market presence of the promoter group "Pranava Group" in the real estate market, extensive experience of the promoters, improvement in sales velocity witnessed over the years and moderate project risk. These rating strengths are partly offset by geographical concentration in the revenue profile and susceptibility to cyclical inherent to real estate industry.

About the Company

Based in Hyderabad (Telangana) and incorporated as a private limited company in 2015, Boorugu Infra Projects Private Limited (BIPPL) is engaged in developing residential apartments and commercial complex in the real estate sector. BIPPL is a part of Pranava Group of Companies, based out of Hyderabad. BIPPL is promoted and managed by Mr. Boorugu Ravi Kumar and Mr. Ashok Bandaru.

About the project

BIPPL's project "One Hyderabad", is located at SY.No.229 & 231, Khairatabad and SY.No.34/3 of Somajiguda, Hyderabad. The project land comprises of 17,052 Sq. Yards on development basis and its own land of 4,300 Sq. Yards. The project site is located on NH-65 (Punjabgutta Main Road) (i.e.) Mumbai-Vijayawada National Highway. Hyderabad Securities and Enterprises Limited (HSEL) and BIPPL have executed a Joint Development Agreement for construction of the residential and commercial project with a joint sharing on 50:50 basis. The residential space is of 5,98,978 Sq.ft. The flats will be housed in 3 blocks, two blocks with 24 floors one block with seven floors. The total number of flats are 139 and will have built up area of 3000 Sq.ft. to 5000 Sq.ft. The commercial space is of 4,88,858 Sq.ft. with entire space being housed in one block of 19 floors. The project was launched in FY2019 and is expected to complete by FY2023. The project has an estimated revenue of around Rs.520 Cr with total project cost around Rs.342 Cr.

About the Group

Founded in 2003, Pranava Group is founded by Mr. Boorugu Ravi Kumar. The group is a renowned real estate player in Hyderabad (Telangana) and has completed construction of around 1,060,588 Sq.fts spread across 13 projects over the past years.

Analytical Approach

To arrive at rating, Acuité has considered the standalone business and financial risk profile of Boorugu Infra Projects Private Limited (BIPPL).

Key Rating Drivers

Strengths

- **Track record of Pranava Group in the real-estate sector; promoter's industry experience and established regional presence**

The group is promoted by Mr. Boorugu Ravi Kumar and Mr. Ashok Bandaru who have more than 2 decades of experience as a real estate developer through various projects executed under the group. Mr. Sama Srinivas, Chief Operating Officer of Pranava Group has gained nearly 2 decades of hands-on experience in construction industry along with different fields namely training and development, entertainment, Retail, and Manufacturing. The senior management team is ably supported by a strong line of mid-level managers. Pranava group consists of entities namely 'Pranava Avenues Private Limited', 'Boorugu Infra Projects Private Limited' and 'Pranava Group' (Partnership Firm) which are engaged in similar line of business. The Pranava group as a whole has completed more than 1 million square feet of residential and commercial projects and plans to add further 1-1.1 million square feet of residential and commercial space by way of its on-going project 'One Hyderabad'. Alongside, the brand equity of 'Pranava' enjoys a modest reputation and is a renowned developer in the Hyderabad (Telangana) region. 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 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 project.

- **Moderate project risk**

BIPPL's project "One Hyderabad" consists of residential space of 5,98,978 Sq.fts and commercial space of 4,88,858 Sq.fts. The estimated project cost is around Rs.342 Cr. It is expected to be funded through 31.59 percent of debt, 31.81 percent of promoter contribution (in form of equity and unsecured loans) and remaining 36.60 percent through customer advances. The funding risk is low as the term loan has been sanctioned by State Bank of India (SBI) to an extent of Rs.100.00 Cr in 2021 and Rs.36.97 Cr has been disbursed as of Dec'31, 2021. Besides, promoters have fulfilled the pre-disbursement conditions of bringing Rs.80.56 Cr equity infusion upfront. The contribution from promoter stood at Rs.90.07 Cr as of Dec'31, 2021. BIPPL is expected to utilize the entire sanction amount by December'2022. The unsecured loans brought in by the promoters are subordinated to the Term Loan. The contribution from customer advances stood at Rs.83.30 Cr as of Dec'31, 2021. Out of Rs.270.24 Cr construction cost, the company has incurred Rs.179.23 Cr as of Dec'31, 2021 resulting in almost 66 percent completion. By considering the good track record of completion of Pranava Group, the project is expected to be completed by 2023, resulting in moderate

implementation risk. The booking of project was started from FY2020. BIPPL recorded sale of 16 residential units in FY2020, 19 units in FY2021 and 24 units in FY2022 (until January 2022). BIPPL has been witnessing improvement in demand in over the years. The absorption rate for project stands at 51 percent as of January 31, 2022. The average realization through selling 78 units (59 Residential + 19 Commercial) stood at Rs. 8,092 per Sq.ft. as of Jan 31, 2022. The real estate market has been growing across the country and moreover in the Hyderabad (Telangana) as evident from the sales trend of the project leading to moderate demand risk. Acuité believes that the project risk profile of BIPPL will remain moderate over the medium term.

- **Presence of escrow account, DSRA and sweep ratio to ensure timely repayments**

The lenders are expected to benefit from the escrow account and the sweep mechanism for servicing principal, interest, and other obligations payable towards the arrangement. BIPPL's all sale proceeds are rerouted through escrow account to monitor and use the collections from the sales. The lenders have exclusive charge over the escrow account in the name of the borrower. Moreover, comfort can be drawn from the presence of DSRA. BIPPL has to maintain a Debt Service Reserve Amount (DSRA) equivalent to for 1 Quarter (3-months) principal of Rs.25.00 Cr and interest portion. There is presence of cash sweep ratio which will enable the lender to use the excess collections for principal repayment of term loan. Moreover, Pranava Group has extended corporate guarantee towards the borrowings. Acuité believes that the presence of adequate liquidity buffers and oversight mechanism will strengthen the payment structure of the external borrowings.

Weaknesses

- **High geographical concentration risk in revenue profile and intense competition in the industry**

BIPPL's on-going project are located in Somajiguda, Hyderabad (Telangana); with no plans to diversify in the medium term. Acuité believes that BIPPL 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. Furthermore, the company 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.

- **Susceptible to real estate cyclicity 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. BIPPL is exposed to the risk of volatile prices on account of demand-supply mismatches in the Hyderabad 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 BIPPL, thereby impacting its operating capabilities. However, Acuité believes that the risk to an extent is mitigated 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 significant delays in project completion.

Material covenants

None

Liquidity Position: Adequate

BIPPL's liquidity is adequate marked by a presence of escrow account in the project to capture the collections from sales, presence of cash sweep ratio mechanism for timely repayment of term loan obligations, Debt service reserve account (DSRA) for 1 quarter of interest and principal obligation coupled with moderate DSCR expected until FY2024. Moderate metrics on customer advances and sales against majority of debt availed is expected to lead to average DSCR of around 1.2-1.5x times in multiple case scenario. BIPPL is dependent on term loan proceeds, contribution from promoters and collections of sale proceeds from units for project funding and term loan repayment obligation. The liquidity profile is also supported through presence of corporate guarantee from Pranava Group. Acuité believes that the liquidity position of the company to remain adequate over the medium term on account of expected structured payment mechanism in term loans and improvement witnessed in the sales velocity of project in current year.

Outlook: Stable

Acuité believes that the BIPPL 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 BIPPL's liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	5.19	10.89
PAT	Rs. Cr.	0.14	0.32
PAT Margin	(%)	2.65	2.90
Total Debt/Tangible Net Worth	Times	4.20	2.86
PBDIT/Interest	Times	8.47	4.26

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	Term Loan	18-02-2021	12.20	01-01-2024	20.00	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Term Loan	18-02-2021	12.20	01-01-2024	80.00	ACUITE BBB- Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Shivam Agarwal Analyst-Rating Operations Tel: 022-49294065 shivam.agarwal@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité