

Press Release

Artech Realtors Private Limited

March 14, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	38.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	38.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITÉ BBB-**' (read as **ACUITE triple B Minus**) on the Rs. 38.00 Cr bank facilities of Artech Realtors Private Limited (ARPL). The outlook is '**Stable**'.

Rating Rationale

The rating assigned reflects an established track record of ARPL in real estate development of about 100 lakh sq. ft. which is resultant of completing more than 60 projects. Further, the rating factors in the location advantage of the current 11 on-going projects in the state of Kerala across multiple cities. Presently, as on December 2022, out of the total saleable are of 16.17 saft. from these 11 projects, the company has already sold 11.24 lakh sq. ft. with sales value of Rs. 550.61 Cr, out of which the company has realised cash to the tune of 318.98 Cr. The rating also draws comfort from the strong experience of the promoters which spans over almost three decades, its operational track record and low gearing. The rating however is constrained due to project completion risk, and susceptibility to real estate cyclicity and regulatory risks.

About the Company

Artech Realtors Pvt. Ltd. was founded in the year 1994. In the last nearly three decades under the competent leadership of Mr. T.S. Asok, the Managing Director, the company has evolved into one of the fastest growing real estate companies in Kerala. Its impeccable reputation has been built on the strong foundations of good locations, quality construction, timely delivery of projects & good after sales service.

The resultant goodwill has helped them to launch 71 projects in various locations in Trivandrum, Kollam, Kottayam, Thrissur and Thiruvalla covering more than 10 million square feet area. As a comprehensive real estate developer, Artech Realtors straddles across all consumer segments from affordable luxury to ultra luxury dwelling units. The Company has tieups with Land owners and has formed joint venture agreements on area sharing basis with them.

Analytical Approach

Acuite has taken a standalone view of the business of ARPL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and established track record

ARPL is into real estate business since 1994. The company is promoted and managed by Mr. T. S. Asok and Mrs. T Lekha. The promoters have almost three decades of experience in the construction and development of real estate. The company has an established track record of developing an area of around 100 lakh square feet. Since inception, Group has completed more than 60 projects. Currently, company is developing 11 residential projects and is in the process of Press Release ARTECH REALTORS PRIVATE LIMITED Rating Assigned launching 3 new projects. The company has obtained all the necessary approvals for its ongoing projects.

The 11 on-going projects are being developed with a total saleable area of 16.17 lakh sq. ft., out of which 11.24 lakh sq. ft. has been sold until September 30, 2022. The company has sold area valuing at Rs. 550.61 Cr, and the amount billed to the customers is Rs. 392.50 Cr, wherein, the company has realised cash of Rs. 318.98 Cr.

Acuite believes the established track record of the company and its extensive experience in developing residential projects will help the company in catering to various class of customers.

Steady construction pace as well as healthy sales and collection traction

ARPL has been constructing projects at a steady pace. The total saleable area as on September 30, 2022 is 16.17 lakh sq. ft. The total value of the sold units amounts to Rs. 550.61 Cr and against that the company has already received Rs. 318.98 Cr. Against the total project cost of Rs. 779.62 Cr the company has incurred 471.89 Cr. Further, the total sales potential of the projects is estimated at around Rs. 976.22 Cr. The quarterly repayment obligations for the ARPL are expected to remain between Rs. 4.24 - Rs. 12.14 Cr.

Continued sales and collection traction will remain a key sensitivity for generating sound cash flows commensurate with its cost and repayment obligations.

Weaknesses

Project Execution Risk

The estimated total cost for ARPL's projects is Rs. 779.62 Cr out of which the company has already incurred cost of Rs. 471.89 Cr (Rs. 82.53 Cr funded through debt, Rs. 318.98 Cr through advance bookings, Rs. 70.38 Cr through promoter's contribution) as on September 30, 2022. It has incurred 60.53 percent of the project cost however it is yet to incur Rs. 307.72 Cr towards the completion of the project which it is expecting to partly meet through committed receivables and disbursement of the remaining loan. Although funding risk is relatively lower due to receivables from sold units and sanctioned bank facility, the project is still susceptible to certain demand risk. Any volatility in the sales and collection traction of the projects would adversely impact the completion of the projects, exposing the projects to execution risk. However, given the healthy sales and collection traction towards the project till date, execution risk is mitigated to certain extent.

Susceptibility 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 real estate industry are cyclical in nature and directly linked to drop in property prices and interest rate risks, which could affect the operations. Given the high level of financial leverage, the high cost of borrowing prevents the real estate's developers' from significantly reducing prices to boost sales growth. Moreover, the industry is also exposed to certain regulatory risks linked to stamp duty and registration tax directly impacting the demand and thus the operating growth of real estate players.

Rating Sensitivities

- Timely completion of project without any cost overruns
- Timely collection from the receivables' units

Material covenants

None

Liquidity Position

Adequate

ARPL has received 57.93% of advance cash of Rs. 318.98 Cr against 69.54% of the total units sold. The company is expecting annual cashflow of Rs. 35.50 Cr to Rs. 81.05 Cr in the medium term against annual repayment obligations of Rs. 15.84 Cr to 72.45 Cr. ARPL has already incurred construction cost of Rs. 471.89 Cr with Rs. 70.38 Cr. of own contribution, Rs. 82.53 Cr of term loan and balance Rs. 318.98 Cr from advance bookings from customers. For the balance construction cost of Rs. 307.73 Cr. that still needs to be incurred, ARPL has around Rs. 32.50 Cr unutilized from its sanctioned TL and receivables outstanding at Rs. 275.23 Cr from its already sold inventory as on September 30, 2022, which together will be sufficient to cover the balance construction cost. Further there will be additional inflow from selling new inventory as well which can be utilized towards the repayment of the TL. Escrow account and timely inflow of cash from the project will ensure ARPL to maintain its liquidity position at comfortable level.

Outlook: Stable

Acuité believes that ARPL will continue to maintain a 'Stable' outlook over the near to medium term owing to its established market position in Kerala and experience of management in the real estate market. The outlook may be revised to 'Positive' in case the company achieves higher than expected customer advances and the projects are executed within the timelines. Conversely, the outlook may be revised to 'Negative' if there are significant delays in the project execution.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	128.08	105.57
PAT	Rs. Cr.	5.91	4.38
PAT Margin	(%)	4.61	4.15
Total Debt/Tangible Net Worth	Times	1.96	1.83
PBDIT/Interest	Times	1.73	1.55

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

None

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. Acuité'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:
Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	36.93	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.07	ACUITE BBB- Stable Assigned

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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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