



Press Release
Artech Realtors Private Limited
October 19, 2023
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	87.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	38.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	125.00	-	-

Rating Rationale

Acuite has reaffirmed its long term rating of **ACUITE BBB- (read as ACUITE triple B Minus)** on Rs.38.00Cr bank facilities of Artech Realtors Private Limited (ARPL). The outlook is 'Stable'. Acuite has also assigned its long term rating of **ACUITE BBB- (read as ACUITE triple B Minus)** on additional Rs.87.00Cr bank facilities of Artech Realtors Private Limited. The outlook is 'Stable'.

Rationale for rating:

The rating considers moderate sales and collection traction in its ongoing projects. ARPL as on date has completed construction of 4 projects among 11 ongoing projects since last review and launched a new project "Marvel" as on June, 2023. During the 9 months period (September 2022 - June 2023) the company has sold total area of 1,23,530 Sq.Ft (7 percent growth) albeit 14 percent of construction incurred in its on-going projects during the said period. The sales velocity is on lower side during the 9 months ended June 2023, due to slow progress in Inspire, Freedom and Elite projects on account of low demand. However, newly launched projects Panaroma and Marvel has shown strong sales as Panaroma has sold 16 percent of its area in 9 months ending June, 2023 while Marvel's 15 percent area was sold in within 3 months of its commencement thereby drawing moderate sales traction. Further, the rating also factors in the location advantage of the 11 on-going projects in the state of Kerala across multiple cities. However, these strengths are partially constrained by ARPL's exposure to execution, funding risk and its susceptibility to real estate cyclicity and regulatory risk.

Acuite believes that, established brand name in the State and long track record of completing projects on time will help in driving the sales of the ongoing projects over the medium term.

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.

Standalone (Unsupported) Rating

None

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management, demonstrated track record and favourable location of on going projects:

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 more than 100 lakh square feet. Since inception, Group has completed more than 65 projects and with a successful track record in past projects, the company has the intent of executing larger residential projects. ARPL, with its strategic positioning of its projects has created brand equity and is now among the top real estate developers in Kerala under the affordable segment. Out of the total 11 projects, the company completed construction of 4 projects in the current year with outstanding inventory of 3,69,089 sq ft as on June, 2023. Currently, company is developing 7 residential projects and has launched 1 new project during June 2023. The company has obtained all the necessary approvals for its ongoing projects. Out of the total area of 16.17 lakh sq. ft. for the 11 projects the company has sold of 12.47 lakh sq. ft. until June 30, 2023. 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 backed by moderate sales and collection traction:

ARPL has shown moderate sales traction during the 9 months period (September 2022 to June 2023), the company has sold area 1,23,530 Sq.Ft during the said period backed by steady demand and completed around 14 percent of the construction of ongoing projects. ARPL has completed construction of 4 of its on-going projects namely Metropolis, Diamond Enclave, Legacy and Flora projects within estimated time and cost. Out of the 11 on-going projects Inspire, Freedom and Elite are slow moving projects with low sales velocity on account of low demand. These three projects are being built in a area of 4,93,880 Sq.Ft in Trivandrum, out of which the company was able to sell area of 17,365 Sq.Ft during past 9 months ending June, 2023. Lower sales velocity has led to slow progress in construction of the respective projects.

On overall basis the company has sold area of 12,47,996 Sq.Ft and completed around 75 percent of the constructions in its on-going projects against which the company has already received booking of 66 percent and received customers advances of 52 percent as a percentage to total saleable value as on June 30, 2023 drawing moderate sales and collection traction. Further, the total sales potential of the projects is estimated at around Rs. 1002.6 Cr. Acuite believes that continued sales and collection traction will remain a key sensitivity for generating sound cash flows commensurate with its cost and repayment obligations.

Weaknesses

Exposure execution and funding Risk:

The estimated total cost for ARPL's projects is Rs. 774.89 Cr out of which the company has already incurred cost of Rs. 583.42 Cr (Rs. 127.44 Cr funded through debt, Rs. 373.72 Cr through advance bookings, Rs. 83.11 Cr through promoter's contribution) as on June 30, 2023. ARPL has

incurred 75 percent of the project cost however it is yet to incur Rs. 191 Cr towards the completion of the projects which it is expected to met through committed receivables and disbursement of the remaining loan. This draws moderate funding risk as the company is primarily depending upon the receivables from sold units and customer advances for construction of the projects. 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

- Lower than expected sales traction leading to increased dependence on debt
- Sharp decline in cash flow due to slower customer advances or delays in project execution

All Covenants

None

Liquidity Position Adequate

ARPL has adequate liquidity which is evident from timely receivables from customers which is sufficient to repay the debt obligations. ARPL is expected to generate cash flows in the range of Rs.145Cr to Rs.245 Cr in the medium term which are against the repayment obligation ranging Rs.22 to 32Cr over the same period. The company mainly dependent on customer advances for its project funding and proportion of external debt is relatively low which has resulted in healthy DSCR. The DSCR is estimated to remain in the range of 1.4 times - 2.3 times over the medium term. Acuité expects ARPL to continue generating healthy surplus cash flows from its unsold inventory in the near to medium term to meet its repayment obligations as well as incremental construction costs. Further, presence of Escrow mechanism 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 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	140.57	128.08
PAT	Rs. Cr.	7.81	5.91
PAT Margin	(%)	5.55	4.61
Total Debt/Tangible Net Worth	Times	1.79	1.96
PBDIT/Interest	Times	1.90	1.73

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

IVR vide its press release dated 16th June 2023, had downgraded the company to IVR BB/Negative; Issuer Not Cooperating.

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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite 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
14 Mar 2023	Term Loan	Long Term	1.07	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	36.93	ACUITE BBB- 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
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	38.00	ACUITE BBB- Stable Reaffirmed
Dhanlaxmi Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	21.41	ACUITE BBB- Stable Assigned
Dhanlaxmi Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	9.39	ACUITE BBB- Stable Assigned
South Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.84	ACUITE BBB- Stable Assigned
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	12.00	ACUITE BBB- Stable Assigned
Kerala Financial Corporation	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	18.85	ACUITE BBB- Stable Assigned
Kerala Financial Corporation	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	18.51	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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