



Press Release
EARNEST CONSTRUCTIONS PRIVATE LIMITED
May 26, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	320.00	ACUITE B Stable Assigned	-
Non Convertible Debentures (NCD)	5.00	Provisional ACUITE B Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	325.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE B**' (read as **ACUITE B**) on the Rs. 320.00 Cr and '**Provisional ACUITE B**' (Read as **Provisional Acuite B**) on the Rs.5.00 Cr Non Convertible Debentures of Earnest Constructions Private Limited (ECPL). The outlook is '**Stable**'.

The long term rating on the Rs.5.00 Cr proposed NCD remains at **Provisional ACUITE B (Read as Provisional ACUITE B)**, and the final rating is subject to receipt of pending documentation.

1. Receipt of the executed trust deed
2. Receipt of the final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions
3. Legal opinion on the transaction, if applicable

Rationale for the rating

The rating takes into cognizance the experience of the promoter in real estate development and the support extended by the promoter developer through regular infusion of funds in the form of unsecured loans. These strengths are however, partly offset by the weak financial risk profile of the company, risk of project execution and exposure to the risks in the real estate industry.

About the Company

Incorporated in 2011 in Bangalore, Earnest Constructions Private Limited is engaged in the business designing, planning, managing, developing and construction of apartments, homes, factory buildings, warehouses, hotels, holiday resorts, industrial sheds, housing colonies, multi-storied buildings, integrated townships, commercial spaces, etc.

About the Group

Established in 1988, by Mr. BM Jayeshankar and Mr. BM Karunesh, Adarsh Developers (AD) is a partnership firm engaged in carrying out the business of development and construction of residential and commercial projects. AD is the flagship as well as holding company of the Adarsh Group. Further, the group has ventured into hospitality business also. The firm has infused funds in the form of unsecured loans in all its SPVs and also given corporate guarantee to them. Currently, the firm has a total land bank of around 1000 acre (most are in Bangalore and Karnataka and some are in Chennai, Tamil Nadu, Kerala and Goa).

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of Earnest Constructions Private Limited (ECPL) for arriving at this rating.

Key Rating Drivers

Strengths

Experienced management and long operational track record

The directors of the company Mr. B M Jayeshankar and Mr. B M Karunesh are highly experienced and actively involved in the operations of the company. In addition to this, the parent, Adarsh Group has a long operational track record in the real estate industry for more than three decades. Acuité believes that the promoter's extensive understanding and expertise and long operational track record of the company will support the company's growth plans going forward.

Weaknesses

Weak financial risk profile

The financial profile of the company is weak marked by negative networth, high gearing and weak debt protection metrics. The tangible net worth of the company deteriorated to Rs. (0.82) Cr from Rs. (0.39) Cr on account of accumulated losses. Gearing of the company stood negative at 231.11 times as on March 31, 2022 as against negative 434.29 times as on March 31, 2021. The weak debt protection metrics of the company is marked by Interest Coverage Ratio and Debt Service Coverage Ratio at negative 0.02 times as on March 31, 2023 (prov). Acuité believes that financial risk profile of the company is expected to be improved over the medium term.

Exposure to the risks in the Real Estate Industry

The business is exposed to the risk of volatile prices on account of frequent demand supply mismatches in the industry. The real estate sector is under high stress on account of large amounts of unsold inventory and high borrowing costs. This is primarily attributable to the high residential property prices due to persistent rollover of bank debt which has a cascading effect on the overall finance costs. Given the high degree of financial leverage, the high cost of borrowing inhibits the real estate developers' ability to reduce prices.

Rating Sensitivities

- Timely payment of debt obligations
- Scheduled commencement and completion of project
- Timely receipt of customer advances
- Improvement in financial risk profile

Material covenants

None.

Liquidity Position

Adequate

The company's liquidity is expected to be adequate in the medium term as the company is expected to generate sufficient cash flow to meet its debt obligation. However, the company has very low cash and bank balance at Rs.0.05 Cr in FY23 (Prov). Acuité draws comfort from the promoter's regular fund infusion into the business. Acuité believes that going forward the company's liquidity position will improve in the near to medium term on account of presence of escrow accounts to ensure timely repayment upon stabilization of business.

Outlook: Stable

Acuité believes that the outlook on ECPL will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, and financial flexibility. The outlook may be revised to 'Positive' in case the group makes substantial progress on the bookings over the medium term. Conversely, the outlook may be revised to 'Negative' in case there is significant drop in bookings or any deterioration of financial risk

profile leading to pressure on liquidity.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	0.01	1.42
PAT	Rs. Cr.	(0.44)	(0.14)
PAT Margin	(%)	(4455.56)	(9.88)
Total Debt/Tangible Net Worth	Times	(231.11)	(434.29)
PBDIT/Interest	Times	(0.02)	(1404.00)

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

None.

Any other information

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

1. Lack of third party monitoring of compliance in absence of executed trust deed and no finalized terms in absence of final term sheet
2. In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/documentation

The rating would be equated to the standalone rating of the entity: ACUITE C

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued: The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

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, 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 :

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
Not Applicable	Not Applicable	Non-Convertible Debentures (NCD)	Not Applicable	Not Applicable	Not Applicable	Simple	320.00	ACUITE B Stable Assigned
Not Applicable	Not Applicable	Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	Provisional ACUITE B 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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