

**October 08, 2013**

Instrument	Amount (Rs. Crore)	Rating
Term Loans	9.80	SMERA B-/Negative/Assigned

SMERA has assigned a rating of **'SMERA B-' (read as SMERA B minus)** to the Rs.9.80 crore term loan facilities of Kasturi Developers (KD). The outlook is **'Negative'**. The rating constrained by the firm's weak financial risk profile marked by high leverage, low net worth, low near-term revenue visibility and limited scale of operations concentrated in Navi Mumbai. The rating is also constrained because of the low saleability of the firm's ongoing projects and KD's presence in the inherently cyclical real estate sector. The above-mentioned weaknesses are partially offset by the firm's experienced management.

KD is a real estate development firm established in 2004. KD has executed only one project till date. The firm has two ongoing projects: (a) 'Kasturi Heritage', a residential-cum-commercial project in Ulwe, Navi Mumbai, and (b) 'Kanupriya', a residential project in Kamothe, Navi Mumbai. No revenues have been booked so far from the ongoing projects. Although the firm has registered 20 per cent bookings in project Kasturi Heritage, the bookings are in the name of the proprietor's family members. KD's term loan repayment is scheduled to commence from March 2014. SMERA believes the firm's debt repayment ability could be constrained by the low saleability and sluggish real estate demand in Navi Mumbai. KD also has a weak capital structure with a low net worth of Rs.2.0 crore and high leverage (considering unsecured loans) at 2.98 times as on March 31, 2013.

KD operates in a highly cyclical real estate sector. Moreover, the real estate industry in India is highly fragmented and most developers have a city-specific or region-specific presence. Presently, the Navi Mumbai region has witnessed several upcoming housing projects, which has lead to high inventory in the area; this scenario is likely to persist over the medium term. Moreover, continuous regulatory changes, price corrections, persistently high inflation and hardening interest rates are likely to affect the near-term profitability of real estate developers.

The ratings are however supported by the experience of the promoter in this industry. Mr. Bhagwanji Minat, KD's proprietor, has almost two decades of experience in the real estate industry. He has successfully managed twelve real estate projects completed by KD's group entities.

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### Outlook: Negative

KD's rating has a 'Negative' outlook primarily on account of the low saleability, sluggish demand scenario and firm's weak financial profile. SMERA believes the low saleability in KD's projects could affect the firm's overall business operation and consequently the rating. The outlook may be revised to 'Stable' in case the firm manages to garner adequate cash flows (through bookings) to ensure timely debt repayment.

### About the firm

KD is a proprietorship concern established in 2004 by Mr. Bhagwanji Minat. The firm's overall operations are managed by Mr. Bhagwanji Minat and his family members. KD's group entities are also involved in real estate development and the management has about two decades of experience in the real estate industry. KD is a small regional player operating in CBD Belapur, Navi Mumbai. The firm has executed one project till date and has two ongoing projects named 'Kasturi Heritage' (a residential-cum-commercial project at Ulwe, Navi Mumbai) and 'Kanupriya' (a residential project at Kamothe, Navi Mumbai).

### About the projects

Kasturi Heritage (Ulwe, Navi Mumbai) is residential-cum-commercial project with an area of 49,004 sq. ft., which includes a thirteen-storey building comprising fifty spacious 2BHK flats and six commercial shops. The project cost is estimated at Rs.15.81 crore, which is likely to be funded through bank borrowings of Rs.6.20 crore, proprietor's capital of Rs.3.02 crore, customer advances of Rs.4.78 crore and unsecured loans worth Rs.1.81 crore from promoter's family and friends. The expected sales realization is Rs.19.81 crore. The project construction started in FY2011-12 (refers to financial year, April 01 to March 31) and is likely to be completed by June 2015. The details of the other project, Kanupriya are not available with SMERA.

KD has not booked any revenues in FY2011-12 and FY2012-13 as the firm's projects were under construction during the aforementioned years. The firm's work-in-progress (WIP) as on March 31, 2013 stands at Rs.7.53 crore as compared with Rs.2.51 crore a year earlier. KD's net worth stands at Rs.2.00 crore as on March 31, 2013 as compared with Rs.1.09 crore a year earlier.

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