

October 09, 2013

Facilities	Amount (Rs. Crores)	Rating
Proposed Term loan	75.00	SMERA B/Stable (Assigned)

SMERA has assigned a rating of '**SMERA B**' (**read as SMERA B**) to the Rs.75.00 crores proposed long term bank facilities of Soni Infratech Pvt. Ltd. (SIPL). The outlook is '**Stable**'. The rating is constrained by the nascent stage of the company's ongoing residential project and implementation and funding risk amidst the inherent cyclical in the real estate sector. The rating also factors in the risks related to the company's substantial investments in group entities. However, the rating derives comfort from the company's experienced management and the healthy booking levels registered in the ongoing project.

SIPL is a Delhi-based real estate company engaged in the development of a residential project (named Spire South) with 606 apartments (including 2BHKs, 3BHKs and penthouses) in Gurgaon, Haryana. The total estimated project cost is about Rs.370 crores and the project is likely to be completed by FY2015–16 (refers to financial year, April 01 to March 31). As on March 31, 2013, SIPL has incurred project cost of Rs.132 crores, which represents about 35 per cent of the total estimated project cost. SIPL is thus exposed to significant project execution risk and any delay in implementation could affect the customer interest in the project.

SIPL is also exposed to funding risk. The company has applied for a term loan of Rs.75.00 crores with an aim to utilize a major portion (Rs.45 crores) of the proposed borrowing towards redemption of outstanding non-convertible debentures issued to ECL Finance Ltd. The proposed loan is likely to have a moratorium period of 12 months. SIPL is obliged to redeem outstanding NCDs of Rs.5.62 crores every quarter starting from April 2014. Any significant delays in sanction or disbursement of the term loan could have a material impact on the company's ability to redeem the outstanding NCDs. SMERA believes that SIPL's credit risk profile will continue to remain constrained on the back of the significant implementation and funding risk prevalent in the project.

As on March 31, 2013, SIPL has invested about Rs.32.00 crores in its subsidiary entity, M/s. K. N. Infracon (KNI). SIPL's stake in KNI stands at 70 per cent as on March 31, 2013. KNI, a real estate development firm, is likely to start construction of a residential real estate project (with an estimated cost of around Rs.350 crores in Gurgaon, Haryana. KNI's project is in the nascent stage of implementation and is thus likely to be cash decretive over the medium term. SMERA believes SIPL's debt servicing ability could deteriorate significantly in case the company makes higher-than-expected investments in either KNI or any other associate entity.

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SIPL's Spire South project has generated healthy customer interest on account of favourable location. Although the project construction is only 35 per cent complete, the company has already registered bookings for 400 of the total 606 apartments. SIPL has received customer advances amounting to Rs.105.00 crores as on July 31, 2013.

SIPL is likely to benefit from its management's extensive experience in the real estate sector. Mr. K. N. Shukla, Promoter of SIPL, has more than ten years of experience in the real estate industry. Mr. Sunil Gandhi, one of the directors of SIPL, also has more than ten years of experience in the real estate industry, and he is currently associated with the construction of a world class IT park and a 40 room budget hotel in NCR region.

Outlook: Stable

SIPL has a stable outlook. SMERA believes the company will be able to maintain its credit profile on the back of the healthy customer interest in the Spire South project. The outlook may be revised to 'Positive' in case the company manages to execute the project on time while receiving higher-than-expected customer advances. The outlook may be revised to 'Negative' in case of inordinate project delays, lower-than-expected customer advances or higher-than-expected investments in affiliate entities.

About the company

SIPL, incorporated in 2007, is a Delhi-based real estate company. SIPL is a Special Purpose Vehicle of Blue River Infrastructure Private Limited and K. N. Consultancy Private Limited. SIPL is undertaking development of a residential project named Spire South, which involves construction of 606 apartments (including 2 BHKs, 3 BHKs and penthouses) in Gurgaon, Haryana.

As per the provisional financials of FY2012-13, SIPL reported net loss of Rs.5.17 crores on operating income of Rs.1.69 crores. The company's net worth stood at Rs.31.70crores as on March 31, 2013.

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