



Press Release

Artech Realtors Private Limited

November 20, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Term Loan	88.44 * (Increased from Rs.70.50 crore)	IVR BBB- (Credit Watch with Developing Implications) (IVR Triple B minus under Credit watch with developing implications)	Reaffirmed (Under Credit Watch with developing implications)
Long Term Bank Facilities – Cash Credit	10.00	IVR BBB- (Credit Watch with Developing Implications) (IVR Triple B minus under Credit watch with developing implications)	Reaffirmed (Under Credit Watch with developing implications)
Total	98.44		

**Outstanding as on October 31, 2020*

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Artech Realtors Private Limited (ARPL) continues to derive strength from its experienced promoters, projects through joint venture route and receipt of all necessary approvals for its ongoing project. However, these rating strengths are partially offset by moderate level of sales for the ongoing project coupled with high dependence on customer advances, project execution and geographical concentration risk. The ratings have been put under credit watch with developing implications amidst lower bookings in the first half of the fiscal FY20 which may impact the progress of the project and the cash flows. However, to boost the real estate demand the government is also taking many positive steps which may translate into benefits for the sector. Infomerics expects that the demand recovery in real estate sector will remain under pressure because of the weak macro-economic environment translating into lower spending and a potential change in the consumer behaviour due to the ongoing pandemic in the near term, at least. Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

Key Rating Sensitivities:

Upward factors



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- Timely completion of the ongoing project.
- Increase in bookings for the launched projects with timely receipt of advances.
- Improvement in the capital structure and debt protection metrics

Downward factors

- Delay in completion of project.
- Significant cost overruns of the project.
- Lower than expected booking status and delayed receipt of customer advances.
- Withdrawal of subordinated unsecured loans and/or moderation in the capital structure.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

Mr. Asok Thankappan is the promoter director with over two decades of experience in the real estate sector. He completed his graduation in civil engineering from TKM College of Engineering and has a master's degree in 'Town and Country Planning' from Anna University. Prior to this, he was working as a Town Planner with the State Government of Kerala. He is supported by his wife Mrs. Lekha Thankamony Amma who is also a Director in the company since inception. She is a graduate by qualification and looks after the administrative work of the company. The Directors are supported by a team of experienced and qualified professionals.

Projects through joint venture route

ARPL enters into joint venture agreement with the landowners by paying an upfront minimal percentage of the land value as refundable security deposit. As a result, total land cost become miniscule of total cost of projects, which helps the company to reduce price volatility risk associated with land purchasing. The JV partner (landowners) is generally compensated by transfer of built-up area. Currently, the company is executing the 11 residential projects, out of which 10 projects are developed under the JV route.

Necessary approvals for all ongoing projects in place



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ARPL currently has 11 on-going projects with 15.10 Isf area at different stages of execution. The company has received necessary approvals for all of its ongoing projects, mitigating the regulatory risks in entirety.

Key Rating Weaknesses

Project execution risk with multiple projects executed simultaneously

The company is executing 11 residential projects simultaneously. The projects are of different sizes with long gestation period and are at various stages of completion. Multiple projects intensify project execution risk as real estate projects involves various external factors like availability of labour, availability of construction materials, requisite approvals, clearances, economic scenarios etc. Considering the gestation period of around three years for completion of real estate projects, any volatility in the raw material prices and labour costs will impact the cost of the project as the selling prices are fixed upon booking.

Moderate level of sales for launched projects

The company presently has 11 launched projects with total saleable area of 15.10 Isf, having an estimated sale value of Rs.846.74 crore. However, the company has received bookings for only about 6.33 Isf (~42% of total saleable area of 15.10 Isf) with total sale value of Rs.322.09 crore (~38% of estimated sale value of Rs.846.74 crore), as on March 31, 2020. Some of the projects that had been started during FY16 and FY17 had witnessed slowdown in execution and booking due to the unfavourable market scenario in the State and higher selling price of few projects. ARPL has received Rs.120.13 crore (~37% of total booked sales of Rs.322.09 crore) till March 31, 2020. Improving sales momentum and timely receipt of customer advances are key monitorable.

High dependence on customer advances

The company is largely dependent on customer advances for funding of its ongoing project as well as for repayment of debts. As on March 31, 2020 the total cost of the 11 projects of the company estimated at Rs.611.16 crore which is proposed to be funded in ratio of 8:29:63 (equity: debt: customer advances). Out of the total cost as on March 31, 2020 the company incurred Rs.249.38 crore (41% of the total estimated cost of Rs.611.16 crore), internal accruals/promoter's contribution of Rs.56.83 crore,



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debt of Rs.72.42 crore and advance from customers of Rs. 120.13 crore. Higher dependence on customer advances indicates execution risk going forward.

Geographical concentration risk

Most of the past and ongoing projects of ARPL are located in Trivandrum, Kerala which exposes the company to geographical concentration risk. Any adverse movement in the regional real estate market can impact the overall operations of the company. However, from the past two years, ARPL has ventured into other cities of Kerala like Thrissur, Kottayam, Thiruvalla and Kollam which mitigates the concentration risk to a certain extent.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Real Estate Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Stretched

The projects of ARPL are funded by a combination of internal accruals, debt and customer advances in the ratio of 8:29:63. ARPL executes its projects primarily by means of customer advances and promoter funds. Hence, the liquidity is largely dependent on regular and timely receipt of customer advances. The company has achieved ~42% of booking for the on-going projects and has received only Rs.120.13 crore out of the total sales value of booked space of Rs.322.09 crore till March 31, 2020. Any slowdown in the collection will put pressure on the company towards meeting its debt obligations. As on September 30, 2020 the company had free cash and cash equivalent balance of Rs.2.62 crore. Further, the working capital utilisation for the past 12-month period ended September, 2020 was moderately high at ~86% indicating limited liquidity buffer.

About the Company

Incorporated in 2005, Kerala based Artech Realtors Private Limited (ARPL) was promoted by Mr TS Asok, a civil engineer by profession. ARPL is engaged in development of residential and commercial real estate projects in Kerala. The company started its operations in 1994 as a proprietorship firm and was later converted into a partnership firm in 2004(M/s Artech Group Contracting) and eventually into a private limited company in October, 2005. ARPL has over 25 years of experience in the real estate sector and has constructed over 67



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commercial and residential projects across Kerala. Presently, the company has on-going projects in major commercial towns in Kerala such as Trivandrum, Kollam, Kottayam, Thiruvalla, Calicut and Thrissur.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	170.90	151.04
Total Income	171.25	151.62
EBITDA	21.41	22.24
PAT	6.63	8.17
Total Debt	87.60	86.97
Tangible Net worth	52.19	60.35
EBITDA Margin (%)	12.53	14.72
PAT Margin (%)	3.87	5.39
Overall Gearing Ratio (x)	1.68	1.35

*As per Infomerics' Standard

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	88.44 * (Increased from Rs.70.50 crore)	IVR BBB- / (Credit Watch with Developing Implications)	IVR BBB- / Stable Outlook (August 28, 2019)	-	-
2.	Cash Credit	Long Term	10.00	IVR BBB- / (Credit Watch with Developing Implications)	IVR BBB- / Stable Outlook (August 28, 2019)	-	-

*Outstanding as on October 31, 2020

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan	-	-	-	88.44 * (Increased from Rs.70.50 crore)	IVR BBB- / (Credit Watch with Developing Implications)
Long Term Bank Facilities – Cash Credit	-	-	-	10.00	IVR BBB- / (Credit Watch with Developing Implications)

*Outstanding as on October 31, 2020