

## Press Release

### Sara Estates Private Limited

August 28, 2020

#### Rating

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long term Bank Facilities	157.47	IVR BB+ / Under Credit watch with developing implications (IVR Double B Plus with Under Credit watch with developing implications)	Assigned
<b>Total</b>	<b>157.47 (One hundred fifty- seven crore and forty-seven lakhs)</b>		

Details of Facilities are in Annexure 1

#### Detailed Rationale

The rating assigned to the bank facilities of Sara Estates Private Limited (SEPL) derives comfort from experience promoters and management team, locational advantage, escrow mechanism and structured payment waterfall. These rating strengths are partially offset by prepayment risk, exposure to risks relating to cyclicity in real estate industry and leveraged capital structure.

#### Key Rating Sensitivities

##### Upward factors

- Significant improvement in profitability metrics thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectation could lead to a positive rating action.
- Significant improvement in capital structure

##### Downward factors

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- Deterioration in lease rental impacting the debt coverage indicators or liquidity, subdued industry scenario could lead to a negative rating action.
- Deterioration in capital structure
- Delay in prepayment of term loan from projected timeline
- Variation of more than 5% in key financial figures of audited financial statements from reported figures of provisional financial statements could trigger the negative rating action.

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

##### **Experience promoters and Management team**

Ambience group has been in the real estate industry for over three decades. The Group is engaged in the acquiring, developing, and marketing of real estate business. The day to day operations of the company are looked after by Mr Raj Singh Gehlot, FCA, founder of the Group having vast experience of over 34 years in business, has registered many awards on his name including Real estate lifestyle leadership award 2011. Project development and marketing activities is looked after by Mr. Aman Gehlot, CA, with over 7 years of experience in the business. Construction and development of the group is managed by Mr. Arjun Gehlot, CA, with an experience of over 4 years in the business. The day to day affairs of the group are managed by experienced professionals.

##### **Locational advantage**

“Caitriona” residential complex, is situated at Ambience Island, NH-8, Gurugram. The complex has been developed as an integral part of Ambience Island township situated on NH-8, Gurugram Haryana border facing vast expanse of Rajokri Green on one side and 9-hole Golf Course on other side. It is situated on Delhi-Jaipur National Highway (NH-8) and is at a distance of 3.5 km. from Radisson Hotel and 5 km. from Indira Gandhi International (IGI) Airport, New Delhi. This Shopping Mall is just at 10 to 20 km. from different parts of the Central Business Districts (CBDs) of Delhi.

##### **Escrow mechanism and structured payment waterfall**

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The main bank loan facility has been structured in the form of a Lease Rental Discounting (LRD) facility. The terms of the LRD facility require that the lease rent receivables from all the tenants of the flats be routed directly to an Escrow Account set up specifically for the repayment of the said LRD facility. The lease rent amounts deposited in to the Escrow Account would be applied towards statutory dues and the scheduled interest and principal repayments of the LRD facility as per the payment waterfall. Only after fulfilling the repayments towards the LRD facility, any amounts remaining in the Escrow Account would be allowed to be paid out to SEPL.

### **Key Weaknesses**

#### **Prepayment risk**

SEPL has proposed to prepay the term loan of around Rs. 100.00 crore in the current fiscal through sale of apartments to meet the debt obligations of the remaining outstanding term loan through lease rentals of the leased-out flats. Prepayment of the loan depends upon the customer advances receipts from sale of unoccupied apartments during the weak demand led by the disruptions due to covid-19. However, company has also provided the undertaking of any shortfall in the receipts from sale of flats will be met by the short-term loan and advances from group concerns and associates. Moreover, company has reported to sell around 10 flats in FY20.

#### **Exposure to risks relating to cyclicity in real estate industry**

Cyclicity in the real estate segment could lead to fluctuations in cash inflow because of volatility in realisation and saleability. This may impact the debt servicing ability of the company. SEPL will remain susceptible to the inherent cyclicity in the real estate sector.

#### **Leveraged capital structure**

Overall gearing ratio stood high at 5.34x FY20. TOL/TNW was also high at 22.47x and as on March 31, 2020. However, proposed amount of prepayment of term loan will lead improve the capital structure marginally.

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### **Applicable Criteria:**

Rating Methodology for Real Estate Sector

Financial Ratios & Interpretation (Non-financial Sector)

### **Liquidity: Stretched**

The liquidity position of the company is stretched marked by the difference in rentals from rented apartments against the debt obligations towards the outstanding term loan. However, SEPL has proposed to prepay the term loan of around Rs. 100.00 crore in the current fiscal through sale of vacant apartments, which will lead to reduction in outstanding amount of term loan to around Rs. 50 crores. Further, company has also provided the undertaking of any shortfall in the receipts from sale of flats will be met by the short-term loan and advances from group concerns and associates to prepay the loan. Company has also availed moratorium till August, 2020 under covid-19 relief package leading to no repayment obligation till August, 2020.

### **About the Company**

Incorporated in year 1990, Sara Estates Private Limited (SEPL) is involved in the construction and development of real estate. SEPL is promoted by Ambience group owned by Mr. Raj Singh Gehlot and other family members. Ambience group has promoted various flagship ventures in the real estate industry such as mall, hotels, corporate office towers, schools, residential complex, golf course and others.

SEPL owns and manage ultra-premium Residential apartments complex “Caitriona” situated at Ambience Island, NH-8, Gurugram. The complex comprises of 240 apartments with premium amenities facing a golf course on one side and lush green Rajjokri green on other side. Area of the apartments ranges from 6800 sq. ft. to 9800 sq. ft.

### **Financials (Standalone):**

**(Rs. crore)**

<b>For the year ended*</b>	<b>31-03-2019</b>	<b>31-03-2020</b>
	<b>Audited</b>	<b>Provisional</b>
Total Operating Income	32.87	125.95
EBITDA	14.19	21.20

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For the year ended*	31-03-2019	31-03-2020
PAT	1.54	2.99
Total Debt	320.84	140.78
Tangible Net worth	23.26	26.36
EBITDA Margin (%)	43.17	16.83
PAT Margin (%)	4.65	2.38
Overall Gearing Ratio (x)	13.79	5.34

\*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Nil

**Rating History for last three years:**

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	157.47	IVR BB+ / Under Credit watch with developing implications	-	-	-

**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](http://www.infomerics.com).

**Name and Contact Details of the Rating Analyst:**

Name: Mr. Ravi Malik  
 Tel: (011) 24655636  
 Email: [rmalik@infomerics.com](mailto:rmalik@infomerics.com)

**About Infomerics:**

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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	-	-	November, 2028	157.47	IVR BB+ / Under Credit watch with developing implications