

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Vee Aar Life Space LLP

January 15, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	100.00	IVR BB+/Stable (IVR Double B plus with Stable Outlook)	Assigned
Total	100.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Vee Aar Life Space LLP (Vee Aar) derive comfort from its experienced promoters having established presence in real estate business in Surat, healthy track record of high saleability in the past projects and total debt tied up for ongoing projects. However, the rating strengths are partially offset by its project execution risk owing to simultaneous execution of multiple projects and low level of sales for its newly launched projects.

Key Rating Sensitivities

- Upward Rating Factor- Timely receipt of the customer advance and completion of the project in time without any significant delay could lead to a positive rating action.
- Downward Rating Factor- Significant time lag in receipt of customer advance thereby resulting in delay in completion of the project could entail a negative outlook.

List of Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters with long track record in real estate business

The firm is a part of the Sangini group which has executed 3300 residential and 600 commercial units in Surat. The promoters commenced their business through a partnership firm “Vee Aar Associates” and over the last three decades had successfully launched and developed various projects in Surat. The firm consisted of six partners who are civil engineer by qualification. Presence of experienced and qualified professional supports the business risk profile of the firm.

Healthy track record of high saleability in the past projects

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The projects executed in the past by Vee Aar has demonstrated healthy saleability. Being fully occupied and high saleability has resulted in significant amount of trust among the prospective buyers in Surat thereby enjoying a privilege space among the builders in Surat. Further, it is reputed for providing timely delivery of good quality assets across residential and commercial space. However, off-take risks remain for the unsold area of around 0.05 lsf available from completed projects.

Total debt tied up for ongoing projects

The firm has tied up the entire debt required for its ongoing projects. The balance construction of the projects would be majorly be funded from the undisbursed term loan tied up and customer advance. This mitigates project finance risk to an extent.

Key Rating Weaknesses

Project execution risk with multiple projects executed simultaneously

The firm is simultaneously executing three 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.

Low level of sales for newly launched projects

The firm is currently undertaking three on-going projects “Sangini Arise”, “Sangini Evoq” and “Sangini Terraza” with total saleable area of nearly 8 lsf, having an estimated sale value of Rs.513 crore. However, the firm has received bookings for only about 3 lsf with sale value of Rs.198 crore i.e ~38% of estimated total sales value of Rs.513 crore as on Sept 30, 2019. Infomerics notes that out of the three projects launched and currently being undertaken, one of the projects in the verge of completion where over 95 % of the total cost of construction of Rs 52.63 crore has been completed and realisation of customer advance has been relatively better. The total area of the project is ~ 1 lsf of which 72 % has been booked till Sept 30, 2019.

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However, the booking of the newly launched project i.e “Sangini Arise” and “Sangini Evoq” which started during FY17 and in FY 16 respectively has slowdown in execution and booking due to the unfavourable market scenario in the State. Of the total saleable area of 6 lsf, only 2 lsf has been sold. However, all the projects are bank approved which imparts some comfort. Improving sales momentum and timely receipt of customer advances are key monitorable.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Real Estate Companies

Financial Ratios and Interpretation (Non-financial sector)

Liquidity: Adequate

The projects of Vee Aar have been funded by a combination of promoter funds, debt and customer advances in the ratio of 25:46:29 respectively. Hence, the liquidity is largely dependent on debt fund and timely receipt of customer advance. All the projects are approved by banks and the firm has already achieved ~41% of booking from the three projects till Sep 30,2019 and do not envisage any delay in loan disbursement on the basis of the progress of construction. Based on past experience of the group, liquidity position is expected to remain adequate in the near to medium term.

About the Company

Established as a partnership firm in 2005 in Surat as Vee Aar Associates and later in 2017 converted into a limited liability partnership firm Vee Aar Life Space LLP is engaged in real estate and commercial property development. The firm is a part of the Sangini Group involved in construction of residential and commercial projects since 1984. Currently, the firm is undertaking construction and development of three real estate properties in Surat under the name, Sangini Terraze, Sangini Arise and Sangini Evoq. Sangini Terrace is almost completed whereas the other two projects are expected to be completed by FY23. The two projects Sangini Arise and Sangini Evoq were initially supposed to be completed in FY21 however, the same has been rescheduled and it is about to get completed by FY 23.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	76.71	36.62
EBITDA	14.68	23.84

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For the year ended* / As On	31-03-2018	31-03-2019
PAT	9.05	6.43
Total Debt	89.89	133.42
Tangible Net worth	60.58	62.63
EBITDA Margin (%)	19.14	65.11
PAT Margin (%)	11.78	17.55
Overall Gearing Ratio (x)	1.48	2.13

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: On July 30'2019- India Ratings & Research have migrated the rating of Vee Aar Life Space LLP to Non- Cooperating Category as "IND BB+ (Issuer Not Cooperating).

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Bank Facilities –Term Loan	Long Term	100.00	IVR BB+ / Stable Outlook	-	-	-

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. 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
Term Loan	-	-	April'2023	100.00	IVR BB+ /Stable