

Press Release

Artech Realtors Private Limited

August 28, 2019

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	10.00	IVR BBB- / Stable Outlook (IVR Triple B minus with Stable Outlook)	Assigned
Long Term Bank Facilities – Term Loan	70.50*	IVR BBB- / Stable Outlook (IVR Triple B minus with Stable Outlook)	Assigned
Long Term Bank Facilities – Proposed	19.50	IVR BBB- / Stable Outlook (IVR Triple B minus with Stable Outlook)	Assigned
Total	100.00		

**Outstanding as on July 31, 2019.*

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Artech Realtors Private Limited (ARPL) derives comfort from its experienced promoters, project execution through joint venture route with minimal upfront cash outflow, obtainment of all necessary approvals for its ongoing projects and entire debt tied up. However, the rating strengths are partially offset by project execution risk, low level of booking for the ongoing project, high dependence on customer advances and geographical concentration risk. Increase in sales velocity as well as booking rate from the ongoing projects, timely completion of the project within the envisaged cost, increase in profitability and gearing levels are the key rating sensitivities.

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 is supported by his wife Mrs. Lekha Thankamony Amma who is also a Director in the company since inception. 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 land owner 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 (land owners) is generally compensated by transfer of built up area. Currently, the company is executing the 15 residential projects, out of which 14 projects are developed under the JV route.

Necessary approvals for all ongoing projects in place

ARPL currently has 15 on-going projects with 20.18 lsf (lakh square feet) area at different stages of execution. The company has received necessary approvals for all of its ongoing projects, mitigating the regulatory risks in entirety.

Total debt tied up for ongoing projects

The company has tied up the entire debt required for its ongoing projects. This mitigates project finance risk to an extent.

Key Rating Weaknesses

Project execution risk with multiple projects executed simultaneously

The company is executing 15 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 launched projects

The company presently has 15 launched projects with total saleable area of 20.18lsf. However, the company has received bookings for only about 8.84lsf (~44% of the total saleable area) with total sale value of Rs.431.02 crore (~39% of estimated sale value) as on March31, 2019. Most of the projects that had been started during FY16 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.184.31 crore (~43% of the total amount booked) till March 31, 2019. 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, 2019 the total cost of the 15 projects of the company estimated at Rs.794.73 crore which is proposed to be funded in ratio of 15:14:71 (equity: debt: customer advances). Out of the total cost as on March 31, 2019 the company incurred Rs.323.41 crore, funded through internal accruals of Rs.119.63 crore, debt of Rs.88.83 crore and advance from customers of Rs.114.95 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 and Kottayam 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

The projects of ARPL have been funded by a combination of debt, customer advances and promoter funds. 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. As on March 31, 2019 (Prov.) the company had cash balance of Rs.4.12 crore. Further, the working capital utilisation for the past 12-month period ended June, 2019 was moderate at ~78% indicating an adequate liquidity buffer. Further, all the projects are approved by the banks and the company has already achieved ~44% of booking for the on-going projects and do not envisage any delay in loan disbursement on the basis of the progress of construction.

About the Company

Incorporated in 2005, Kerala based Artech Realtors Private Limited (ARPL) was promoted by Mr. T S 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 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	31-03-2018	31-03-2019
	Audited	Provisional
Total Operating Income	169.65	172.88
EBITDA	19.87	23.58
PAT	6.34	8.29
Total Debt *	76.47	87.41
Tangible Net worth	43.57	51.75
EBITDA Margin (%)	11.71	13.64
PAT Margin (%)	3.72	4.79
Overall Gearing Ratio (x)	1.76	1.69

**unsecured loan amounting to Rs.4.28 crore as on March 31, 2018 and Rs. 5.45 crore as on March 31, 2019 is treated as neither debt nor equity*

Status of non-cooperation with previous CRA:

CARE Ratings has moved the rating of ARPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated March 26, 2019.

CRISIL has moved the rating of ARPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated October 24, 2018.

Any other information: Nil

Rating History for last three years with Infomerics:

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 Fund Based Limits – Cash Credit	Long Term	10.00	IVR BBB- / Stable Outlook	-	-	-

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
2.	Long Term Fund Based Limits – Term Loan	Long Term	70.50*	IVR BBB- / Stable Outlook	-	-	-
3.	Long Term Fund Based Limits – Proposed	Long Term	19.50	IVR BBB- / Stable Outlook			

*Outstanding as on July 31, 2019.

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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The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/AOPs in addition to the financial performance and other relevant factors.

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 – Cash Credit	-	-	-	10.00	IVR BBB- / Stable Outlook
Long Term Bank Facilities – Term Loan	-	-	Nov-2022	70.50*	IVR BBB- / Stable Outlook
Long Term Bank Facilities – Proposed	-	-	-	19.50	IVR BBB- / Stable Outlook

*Outstanding as on July 31, 2019.