

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

M/s. Ashwatha Developers

May 3, 2018

Rating

Instrument	Amount	Rating	Rating Action
Proposed NCDs	Rs.150.00 crores	IVR B+/Stable Outlook (IVR Single B Plus with Stable Outlook)	Assigned

Details of the instrument are in Annexure 1

Detailed Rationale

The rating is constrained by the project execution risk coupled with past delays in the project, funding risk, high debt of the project and negative networth of the firm, risk of withdrawal of capital by the partners, marketing risk for the project and cyclical nature of real estate industry. However, the rating derives comfort from the presence of experienced promoters, favourable location of the project and receipt of the entire promoters' contribution for the investment in the project. Timely completion of the project, tie-up of debt funding and timely sale of flats at competitive rates are the key rating sensitivities.

List of Key Rating Drivers

- Project execution risk coupled with past delays in the project
- Funding Risk
- High debt of the project and negative net worth of the firm
- Risk of withdrawal of capital by the partners
- Marketing risk for the project
- Exposure to risks relating to cyclicity in real estate industry
- Experience of Promoters
- Favourable Location
- Receipt of the entire promoters' contribution for the project

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Detailed Description of Key Rating Drivers

Project execution risk coupled with past delays in the project

The project was conceptualised and the plot was allotted to the firm in 2005 and the project was expected to have commenced soon after. However, the project suffered from delays due to a stay order brought under a suit filed by the owners of the adjoining plot. The stay was finally vacated in the year 2016 by the Bombay High Court allowing construction to commence immediately after.

The developers have also proposed a change in the plan for the saleable building requiring an increase in the FSI. The permission for the increased FSI is yet to be received. The building for sale is yet to be constructed with only the piling work for the foundation having been completed as of April 2018.

Funding Risk

The debt component would be in the form of NCDs of Rs.150 crore and unsecured loans of around Rs.55 crore. The issuance of the proposed NCDs for the project is under process and the terms are being finalised. Therefore, the project has funding risk at present.

High debt of the project and negative net worth of the firm

The overall debt for the project is high at Rs.54.86 crore as on March 31, 2018, considering the fact that the firm is estimated to have negative networth of Rs.3.51 crore as on March 31, 2018.

Risk of withdrawal of capital

M/s. Ashwatha Developers is set-up as a partnership firm, which are constitutionally weak as there is no restriction on the withdrawal of capital, any withdrawal of capital from the firm could further weaken the capital structure of the firm.

Marketing Risk

The saleable flats are yet to be constructed, with only the piling work for the foundation having been completed. The introduction of Real Estate (Regulation and Development) Act, 2016 (RERA) and the Goods and Services Tax Act (GST) in the past one year have dampened demand for real estate. Also, the long delays experienced by the project in the past

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would pose challenges in attracting prospective home buyers. However, the favourable location of the project with the connectivity options and proximity to various amenities should act as an advantage in marketing the project.

Exposure to risks relating to cyclicalities in real estate industry

Cyclicalities 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 firm. The firm will remain susceptible to the inherent cyclicalities in the real estate sector.

Experienced Promoters

M/s. Ashwatha Developers is Special Purpose Vehicle (SPV) that was formed as a partnership firm in 2002. The partners, Mr. Hemant Nanji Chheda (experience of 16 years), Mr. Laherchand Meghji Shah (experience of over 40 years), Mr. Jignesh Kulin Gala (experience of over 15 years), Mr. Krudent Hemant Chheda, son of Mr. Hemant Chheda, Mr. Ramniklal Chhaganlal Dedhia, Mr. Mukesh Amritlal Patel (professional Architect with over 25 years of experience) and Mr. Jignesh Mahendra Majethia have a combined experience of decades in the real estate industry.

The development partner for the project is Tru Realty Technology Pvt. Ltd (TRTPL), which is promoted by Mr. Sujay Kalele (ex-CEO of Kolte Patil Developers Ltd). As development partners TRTPL shall help Ashwatha Developers in execution, marketing & financing the project.

Favourable Location

The project is located in Dadar, and is within a distance of a kilometre from Dadar Railway station as well as Siddhi Vinayak Temple, while the Bandra – Worli Sea Link is within 5 kms from the site. The suburb is well connected by road and suburban railway. The Domestic and International Airports are at distance of ~12-15 kms from the site.

Receipt of the entire promoters' contribution for the project

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The entire promoters' contribution for the project of Rs.8.91 crore has been received. The firm has also raised Rs.54.9 crore in the form of unsecured loans from the promoters and their relatives.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for real estate entities

Financial Ratios & Interpretation – non-financial entities

Criteria on Default Recognition and Post-Default Curing Period

About the Entity

M/s. Ashwatha Developers is a partnership firm established in the year 2002. In the past, the partners have executed various projects across Mumbai and Thane with an aggregate area of 6.4 Lakh sq. ft. The firm had acquired the rights to redevelop Dadar Sai Prasad Co-operative Housing Society located at SK Bole Road, Dadar West. The building is being developed on a plot admeasuring 3047.68 sq.mt.

The firm has appointed Tru Realty Technology Pvt. Ltd (TRTPL) as development partners. TRTPL is promoted by Mr. Sujay Kalele (Ex- CEO of Kolte Patil Developers Ltd) and would support the firm in execution, marketing & financing of this project.

Financials (Standalone)

The firm is in project implementation stage and hence financial ratios do not indicate much. However, brief financials for the firm are attached below:

For the year ended / Rs. Crs	31-03-2016	31-03-2017
	Audited	Audited
Total Net Worth	7.9	7.6
Total Debt	30.8	43.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years: Not applicable



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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 Facility

Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility(Rs. Crores)	Rating Assigned/ Outlook
Non-Convertible Debentures (Proposed)	-	-	-	150.00	IVR B+ with Stable Outlook (IVR Single B plus with Stable Outlook)