



## Infomerics Valuation And Rating Pvt. Ltd.

### Press Release

### Priyesh Investment Private Limited

July 10, 2018

### Rating

Instrument	Amount	Rating	Rating Action
Proposed NCDs	Rs.135.00 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 company, marketing risk for the project and cyclical nature of real estate industry. However, the rating derives comfort from the presence of experienced promoters and favourable location of the project. Timely completion of the project, tie-up of debt funding and timely receipt of revenue against billed work 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
- Marketing risk for the project
- Exposure to risks relating to cyclical nature in real estate industry
- Experience of Promoters
- Favourable Location

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

#### **Project execution risk and past delays**

The project was conceptualised and the allotment was done in 2005 itself. The project was expected to commence soon after it was allotted but, the project has suffered from delays due to a stay order brought under a suit filed by the owner of the adjoining plot – a Jain Charitable Trust; under the premise that the plot should be reserved for a school and not a residential building. The stay was finally vacated in the year 2016 by the Bombay High Court allowing construction to commence immediately after.

The developers have 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 rehab building shall consist of 2 wings ‘A’ and ‘B’, which will have Ground plus 9 floors, of which Ground plus 5 floors are already completed. 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.135 crore. The entire development expense to be incurred by PIPL shall be funded from the proceeds of the NCD issue. 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 component and negative net worth**

The overall debt for the project is high at Rs.135 crore, to be raised through the NCD issue. The company is estimated to have negative net worth of Rs.0.53 crore as on March 31, 2018. The high level of debt coupled with negative net worth indicates poor debt protection metrics and higher risk for debt servicing.

#### **Marketing Risk**

The saleable flats are yet to be constructed, with only the piling work for the foundation having been completed. The total number of saleable flats are 68 and developers have yet to initiate bookings. Ashwatha Developers expects to receive Rs.402.4 crore from the sale of the flats. The introduction of Real Estate (Regulation and Development) Act, 2016 (RERA) and



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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 would pose challenges in attracting prospective home buyers.

The favourable location of the project with the connectivity options and proximity of 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 company. The company will remain susceptible to the inherent cyclicalities in the real estate sector.

### **Experienced Promoters**

Priyesh Investment Private Limited (PIPL) was incorporated in 2002. It was primarily functioning as an investment company, albeit on a small scale. The Directors, Mr. Hemant Nanji Chheda (experience of 16 years), Mr. Jignesh Kulin Gala (experience of over 15 years) and Mr. Mukesh Chheda (experience of over 10 years) have a combined experience of decades in the real estate industry. PIPL is proposed to acquire a majority stake (51% share) in Ashwatha Developers, the firm which is developing the project named Insignia at Dadar. It would also undertake contract work for the aforementioned project.

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 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.

### **Analytical Approach: Standalone**



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### **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**

Priyesh Investment Pvt Ltd (PIPL) is undertaking contract work for Ashwatha Developers. PIPL will acquire 51% stake in Ashwatha Developers in FY19 and would become a majority partner. Ashwatha Developers is a partnership concern 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 has acquired the rights to redevelop Dadar Sai Prasad Co-operative Housing Society located at SK Bole Road, Dadar West. PIPL will raise bills for the construction work completed and will be paid a margin above the construction cost incurred for the construction.

### **Financials (Standalone)**

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

<b>For the year ended / Rs. Crs</b>	<b>31-03-2017</b>	<b>31-03-2018</b>
	<b>Audited</b>	<b>Provisional</b>
Total Net Worth	(0.5)	(0.5)
Total Debt	0.9	0.9

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Nil

**Rating History for last three years:** Not applicable

**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).

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## Infomerics Valuation And Rating Pvt. Ltd.

### About Infomerics:

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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)	-	-	-	135.00	IVR B+ with Stable Outlook (IVR Single B plus with Stable Outlook)

### Annexure 2: Rating History

Name of Instrument	Current Ratings (2018-19)			Rating History		
	Type	Amount Outstanding (Rs. Crores)	Rating	Date & Rating Press Release Assigned in 2017-18	Date & Rating Press Release Assigned in 2016-17	Date & Rating Press Release Assigned in 2015-16
Non-Convertible Debentures	Long Term	-	IVR B+ / Stable Outlook	Nil	Nil	Nil



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(Proposed)			(IVR Single B Plus with Stable Outlook)			
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