

Sunteck Realty Limited

December 01, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	600.00 (Enhanced from 25.00)	CARE AA-; Positive (Double A Minus; Outlook: Positive)	Reaffirmed
Long-term/Short-term bank facilities	200.00	CARE AA-; Positive/CARE A1+ (Double A Minus; Outlook: Positive/A One Plus)	Assigned
Total bank facilities	800.00 (₹ Eight hundred crore only)		
Commercial paper	100.00 (Enhanced from 25.00)	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	100.00 (₹ One hundred crore only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation in the ratings assigned to the long-term bank facilities and short-term instrument of Sunteck Realty Limited (SRL) continues to factor in the extensive experience of the promoters of nearly two decades in the real estate industry marked with healthy track record of real estate space development of more than five million square-feet (msf). The ratings favourably take cognisance of the healthy booking status at an intermediate stage of execution in the overall project portfolio, leading to the build-up of sizeable committed receivables thereby rendering robust cash flow visibility. The ratings of SRL further draw comfort from the strong financial risk profile of the company characterised with low reliance on debt for the development of projects. Healthy traction at the initial stage of construction enables the company in funding the project cost majorly through customer advances. This, coupled with low land cost associated with adoption of asset light model, assists SRL in maintaining low debt profile and healthy profitability. This apart, the company is holding ready unsold inventory with market value of over ₹1,800 crore majorly led by inventory in the micro-market of Bandra Kurla Complex (BKC), which further supplements the financial flexibility of the company.

The ratings are, however, constrained by aggressive development plans in pipeline with high reliance on customer advances for funding the future project costs, limited geographic presence, moderate scale of operations, and inherent cyclicity associated with real estate sector. Going forward, the ability of the company to launch the upcoming projects in a timely manner and thereby ramp-up the bookings and collections in line with the proposed expansion plans along-with maintaining healthy capital structure remains key rating monitorable.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Yearly collections of ₹1,500 crore along with gross debt/annual collections to remain below 0.45x, on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Considerable decline in the percentage of committed receivable to cover balance project cost and outstanding debt to 60% and below on a sustained basis.
- Any incremental debt other than envisaged deteriorating overall gearing to 0.50x (net of capital reserve on consolidation) or above on a sustained basis.

Outlook: Positive

The positive outlook assigned to the long-term rating reflects CARE Ratings Limited's (CARE Ratings') belief that the overall business risk profile of the company will improve significantly upon timely launch of the projects and achievement of healthy bookings in the early stage of execution in line with past track record. This shall ramp-up the bookings and ultimately the overall collections of the company to scale up the operations. The outlook may be revised to 'Stable' in the event of substantial delays in launching of upcoming projects or significant slowdown in the sales momentum of ongoing/forthcoming projects leading to decline in the overall cash flows of the company from the envisaged levels.

Detailed description of the key rating drivers

Key rating strengths

Expansion through asset light model rendering healthy revenue visibility: The group has completed 13 projects with developed area of over 5 msf as on March 31, 2022. While these projects were majorly executed on owned land, the company

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

has now shifted its focus on developing the projects on joint venture/joint development agreement (JV/JDA) basis, which is evident from the sizeable land acquisitions made recently by signing JDAs. Under such agreements, the company has acquired development rights of close to 36 msf, and the consideration to JDA partner is linked to the collections leading to efficient management of cash flows. Due to such sizeable acquisitions, the company has pipeline to launch the projects for the next seven to eight years reflecting healthy revenue visibility of medium to long term.

Significant improvement in bookings; recent and upcoming launches to drive the momentum: As on March 31, 2022, the company has booked more than 60% of the total revenue potential of the ongoing projects. Amongst the ongoing projects, the company has been able to sell more than 90% of area in two projects (Maxx World- Naigaon, Sunteck Crest-Andheri); more than 60% of the area in two projects (Sunteck City- 2nd Avenue Pinnacle and 4th Avenue - Goregaon) and close to 30% in one project (One World- Naigaon) due to its recent launch. The healthy booking status is also attributable to the recent improvement in sales momentum of the company as evident from Y-o-Y growth of 27% in pre-sales bookings in FY22 (refers to the period April 1 to March 31) primarily driven by healthy demand scenario in H2FY22. The bookings in H2FY22 registered Y-o-Y growth of 18.75% despite a higher base driven by stamp duty cut led sales in the previous year. The Y-o-Y growth stood even higher at 49% in H1FY23 owing to the healthy sales velocity achieved in new project, viz., Beach Residences (Vasai), and low base hit by second wave of the pandemic. Driven by the recent launches of One World in Naigaon and Beach Residences in Vasai along with various projects planned to be launched ahead, the sales momentum of SRL is expected to remain strong.

Strong committed receivable coverage ratio indicating low funding risk and healthy cash flow visibility: The company has achieved substantial level of bookings in its ongoing project portfolio, which has resulted into build up of sizeable committed receivables. As on March 31, 2022, the company has committed receivables of over ₹1,900 crore, which covers more than 80% of the balance project cost and outstanding debt. Around 30% of committed receivables pertains to completed projects which are due to be received post the possessions are delivered; hence, there is strong cash flow visibility in the near term. Amongst ongoing projects (including ongoing projects that are not yet launched for sale), four projects are in advanced stage of completion, two projects in intermediate stage of execution and three projects in the nascent stage of completion. As on March 31, 2022, SRL has incurred close to 54% of cost reflecting intermediate stage of execution. Though residual execution risk exists, adequacy of committed receivables reflects low level of funding risks.

Strong financial discipline marked by low reliance on debt to fund project cost: The projects currently under execution are being funded through low level of debt. Out of the total project cost incurred on the projects (completed, ongoing and forthcoming) as on March 31, 2022, the committed debt constituted only 10%. The comfortable debt position of the company is also reflected from low gearing (after adjustment of capital reserve recognised during acquisition of subsidiary from net worth), which stood at 0.49x, 0.35x and 0.40x as at the end of past three financial years (FY20E-FY22E). The total gross debt/collections have improved significantly from 1.10x as on March 31, 2020 to 0.77x and 0.66x as at the end of previous two financial years. Thus, the capital structure of the company remains comfortable reflecting strong financial discipline. Going ahead as well, despite expansion, the gearing level is expected to be comfortable at lower than 0.50x. The financial flexibility of the company is further supplemented by the ready unsold inventory with potential sales value of more than ₹1,800 crore.

Experienced promoters and healthy track record of project execution: SRL is led by Kamal Khetan (Chairman and MD), an engineer in Electronics and Communications from Mangalore University and a first-generation promoter. He is involved in the formulation of corporate strategy and acquisition, while providing guidance on execution and diversification plans of the company. He is assisted by well-qualified and experienced management team who has rich experience in the real estate business. Till date, SRL has delivered over 5 msf of space across segments, which reflects healthy track record of the company in the real estate industry.

Key rating weaknesses

Aggressive expansion plans: Till date, the company has developed area of nearly 5 msf, while it has planned to undertake development of over 36 msf in medium term. Thus, the overall planned size of development remains significantly high as compared to the size developed in the past. Furthermore, majority of the development is planned to be undertaken in new development clusters of Kalyan, Vasai, Vasind, and Borivali. For funding the future project costs, the company is largely reliant on the customer advances considering it has healthy track record of achieving strong bookings in the early stage of execution. This apart, surplus from ongoing projects shall also support the funding in upcoming projects. Nevertheless, with high dependence on customer advances, the ability of the company to achieve healthy bookings in the new micro markets in line with its past track record of bookings shall remain monitorable.

Limited geographic presence and moderate scale of operations: SRL is currently executing projects in three micro-markets of MMR, viz., BKC, Naigaon, and Oshiwara District Court- Goregaon (ODC, Goregaon) and has moderate scale of operations with yearly bookings and collections in the range of ₹1,000-1,500 crore. With all the ongoing projects being executed in MMR, there exists geographic concentration. Any downturn in such micro markets might impact the developer's revenues going forward. Nevertheless, SRL through its upcoming projects, is expanding its footprints in new development clusters within the MMR region of Kalyan, Borivali, Vasai, etc., which mitigates the risk to certain extent. Furthermore, product offerings across segments and price points also contributes towards diversification in the revenue profile.

Inherent risk associated with the execution of large-scale projects amid the cyclical nature of the real estate industry: The company is exposed to the cyclical nature associated with the real estate sector, which has direct linkage with the general macroeconomic scenario, interest rates and level of disposable income available with individuals. In case of the real estate companies, the profitability is highly dependent on property markets. A high interest rate scenario could discourage the consumers from borrowing to finance the real estate purchases and might depress the real estate market. Overall, the effects of the receding pandemic, progress on the vaccination front, and recovery in the economy will be the factors driving real estate sales and demand going ahead. The improvement in job market shall also determine the recovery in the sector.

Liquidity: Strong

As on September 30, 2022, the company has reported free liquid investments of ₹79 crore, against the scheduled debt commitments of close to ₹45 crore in balance FY23. This apart, SRL has undrawn bank lines of nearly ₹400 crore as on June 30, 2022, which reflects healthy liquidity cushion. Furthermore, healthy level of committed receivables also lends significant comfort reflecting healthy cash flow visibility. Cash coverage ratio of the company is accordingly expected to remain healthy in the next three years. The company had not availed moratorium (Moratorium-I and II) for its debt facilities, as was extended by Reserve Bank of India (RBI) during outbreak of covid-19.

Environmental, Social and Governance (ESG) Factors: The activities in the real estate sector have an adverse impact on environmental and social aspects in light of high emission levels, waste generation, climate change, high labour intensity and related safety issues. SRL has an ongoing focus on strengthening its compliances of ESG parameters and resultantly it has taken various initiatives for efficiently managing ESG risks. In this regard, the company has also been awarded preliminary certificates by Green Business Certifications Inc. for six of its green projects – Sunteck Beach Residences (Vasai), 4th Avenue Sunteck City (Goregaon), Sunteck Maxx World (Naigaon), Sunteck One World (Naigaon), Sunteck BKC 51 and Sunteck Icon. SRL is also looking forward to achieve certificates for other projects. This apart, other key initiatives include:

- Environmental- 'Go Green' CSR Campaign, Digital transformation to reduce resource consumption, Rainwater Harvesting.
- Social- Support for migrant workers following outbreak of COVID-19, contribution towards medical initiatives.
- Governance- Code of conduct, Corporate Social Responsibility (CSR) and Whistleblower policies in place, Disclosure on Corporate Governance, etc.

Analytical approach: Consolidated; as SRL executes projects through subsidiaries, special purpose vehicles (SPVs) and joint ventures (JVs). The list of companies considered in the consolidation is presented under Annexure-6.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Rating methodology for Real estate sector](#)

About the company:

Sunteck Realty Limited (SRL) is engaged in the development of residential and commercial properties. The company undertakes its projects primarily under joint venture (JV) and joint development arrangement (JDA) formats. SRL's developmental activities are mainly spread out in the Mumbai Metropolitan Region, along with some development in Tier-II cities such as Jaipur, Nagpur and Goa through completed or forthcoming projects. Till date, SRL has delivered over five million sq-ft (msf) and has ongoing development portfolio of over 7 msf.

SRL undertakes and markets its real estate properties mainly under the following five brands, i.e., (a) 'Signature'- Uber luxury residences, (b) 'Signia' - Ultra luxury residences, (c) 'Sunteck' - for the commercial and retail developments, (d) 'Sunteck City'- premium luxury residences aimed at high to mid income segment, and (e) 'Sunteck World' – affordable residence for mid income to lower mid segment.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	September 30, 2022 (UA)
Total operating income	314.11	216.53	236.51
PBILDT	77.95	49.81	67.50
PAT	37.84	12.90	27.28
Overall gearing (times)	0.20	0.22	0.23
Adjusted overall gearing*	0.49	0.35	0.32
Interest coverage (times)	1.60	1.09	1.80

A: Audited NA: Not available

Note: Financials have been classified as per CARE Ratings' internal standards

*Adjusted overall gearing is computed after excluding capital reserve from tangible net worth, which was recognised on acquisition of subsidiary.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)		19-09-2022	0	Yet to be placed	100.00	CARE A1+
Fund-based - LT-Term Loan		-	-	31-07-2024	600.00	CARE AA-; Positive
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	200.00	CARE AA-; Positive / CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	-	-	-	-	1)CARE AA-; Negative (16-Feb-21) 2)Withdrawn (16-Feb-21) 3)CARE AA-; Negative (22-Apr-20) 4)CARE AA-; Stable (03-Apr-20)	1)CARE AA-; Stable (05-Apr-19)
2	Debentures-Non convertible debentures	LT	-	-	-	-	1)Withdrawn (03-Apr-20)	1)CARE AA-; Stable (05-Apr-19)
3	Fund-based - LT-Bank overdraft	LT	-	-	-	-	1)Withdrawn (16-Feb-21) 2)CARE AA-; Negative (16-Feb-21) 3)CARE AA-; Negative (22-Apr-20) 4)CARE AA-;	1)CARE AA-; Stable (05-Apr-19)

							Stable (03-Apr-20)	
4	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)CARE A1+ (16-Feb-21) 2)Withdrawn (16-Feb-21) 3)CARE A1+ (22-Apr-20) 4)CARE A1+ (03-Apr-20)	1)CARE A1+ (05-Apr-19)
5	Commercial paper- Commercial paper (Standalone)	ST	-	-	-	-	1)Withdrawn (12-Feb-21) 2)CARE A1+ (22-Apr-20) 3)CARE A1+ (03-Apr-20)	1)CARE A1+ (05-Apr-19)
6	Debentures-Non- convertible debentures	LT	-	-	-	-	-	1)Withdrawn (05-Apr-19)
7	Commercial paper- Commercial paper (Standalone)	ST	100.00	CARE A1+	1)CARE A1+ (07-Oct-22)	-	-	-
8	Fund-based - LT- Term loan	LT	600.00	CARE AA-; Positive	1)CARE AA-; Positive (07-Oct-22)	-	-	-
9	LT/ST Fund- based/Non-fund- based- CC/WCDL/OD/LC/BG	LT/ST*	200.00	CARE AA-; Positive / CARE A1+				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Fund-based - LT-Term loan	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Annexure-6: List of companies considered under consolidation:

Name of entity	Stake of SRL
	As at March 31, 2022 (%)
Skystar Buildcon Private Limited	100.00
Starlight Systems Private Limited	100.00
Starlight Systems (I) LLP	100.00
Satguru Corporate Services Private Limited	100.00
Sahrish Constructions Private Limited	100.00
Starteck Lifestyle Private Limited	100.00
Satguru Infocorp Services Private Limited	100.00
Advaith Infraprojects Private Limited	100.00
Sunteck Property Holdings Private Limited	100.00
Sunteck Real Estates Private Limited	100.00
Sunteck Realty Holdings Private Limited	100.00
Sunteck Infraprojects Private Limited	100.00
Clarissa Facility Management LLP	100.00
Mithra Buildcon LLP	100.00
Sunteck Lifestyle Limited (UAE)	100.00
Magnate Industries LLP	100.00
Sunteck Lifestyle International Private Limited (Mauritius)	100.00
Sunteck Lifestyle Management DMCC (UAE)	100.00
Shivay Brokers Private Limited (w.e.f. 19 November 2020)	100.00
Sunteck Lifespace Private Limited	100.00
Industele Property Private Limited	100.00
Rammit Corporate Solutions Private Limited	100.00
Prija Trading Private Limited	100.00
Sunteck Infracon Private Limited	100.00
Joint Ventures	
Piramal Sunteck Realty Private Limited	50.00
Nariman Infrastructure LLP	50.00
Uniworth Realty LLP	50.00
GGICO Sunteck Limited (UAE)	50.00

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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