

G.R Constructions

May 05, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	100.00 (Enhanced from 50.00)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	100.00 (Rs. One Hundred Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of G.R Constructions (GRC) is constrained by its relatively small scale of operations, high geographical concentration risk with all projects located in Bengaluru. The firm has recently launched relatively two large size projects, GR Samskruthi in October 2021 and GR Sitara in March 2022 for which sales are yet to commence in full swing. While the firm has demonstrated its ability to execute projects in the past, its ability to replicate the same in GR Samskruthi and in GR Sitara remains to be seen. CARE also considers the pending debt tie up in relation to the project funding of newly started GR Sitara Project. The rating is also constrained by sizeable upcoming projects in pipeline and exposure to inherent cyclical risk in real-estate industry. These rating weaknesses are partially offset by firm's established track record of completing the construction and sales within envisaged timelines and keeping lower reliance on debt.

Rating Sensitivities

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

- Achieve sales of more than 85-90% in GR. santhrupthi ph-2 and above 50% in GR. samskruthi and upto 30% in GR Sitara in next 12 months along with healthy collection efficiency.

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

- Delay in project execution or slowdown in sales velocity leading to unsold inventory beyond 5 years.
- Cost overruns or unforeseen delays in the completion of the project.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate level of unsold inventory in the ongoing projects and exposed to Geographical concentration risk

In all the projects combined as of March 31, 2022, 22.73% of inventory is sold. The company was able to sell the 90% of units in GR santhrupthi Phase-1 within 2 years from the sales launch date and in case of GR santhrupthi-Phase-2 company was able to sell around 30% of total units within 3 months from the sales launch date and the firm is expecting to hold the remaining units in case of GR Santhrupthi projects in order command a better pricing in the market. However, Sales in GR Samkruthi remained low as the project is in its initial stages of construction phase and the company has recently started GR Sitara apartment project in the month of March 2022 in which it was able to sell around 7 units as on March 31, 2022.

All the projects of G R constructions have been situated in and around Bangalore which reflects the high geographical risk. As Bangalore is a developed city, GRC is likely to be face intense competition from well established players as well.

Sizeable upcoming projects in pipeline

The firm has plans to launch new projects in residential segment having saleable area of 6.63 lsf in medium term, which will expose the firm to high execution and funding risk. The firm has prior experience in the residential projects but timely execution of projects within budgeted cost as well as timely sale of the property would be a key rating monitor able.

High concentration in Bengaluru residential market and exposure to inherent cyclical risk in real-estate industry

GRC's business is significantly dependent on the performance of the real-estate market, primarily in Bengaluru, where its entire ongoing and upcoming projects are located. Being a cyclical industry, real estate depends on macro-economic factors and the firm's dependence on a particular geography further heightens such risk.

Constitution of the entity as partnership firm with inherent risk of withdrawal of capital

Constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency which will affect its capital structure. Moreover, partnership firms have restricted access to external borrowing which limits their growth opportunities to some extent.

Key Rating Strengths

Experience of the promoters in the real estate industry

GRC is promoted by Mr Ramana Babu who have been engaged in the business of real estate for more than decade and has an overall experience of 30 years in construction space. Mr Eshwar Naidu has around 20 years of experience in the real estate

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

industry. The partners have completed 9 residential projects of 11.27 lsf so far and has the track record of completing the projects on time.

Consistent pre-payment of loan, lower reliance on debt and adequate support from partners and related parties

The firm has nearly no outstanding debt in the completed projects and firm was able to repay the entire loan in relation to the Santhrupthi phase-1 of Rs.17 Cr way ahead of the due date of January 2024 which demonstrates its repayment capacity of the firm. The ongoing projects of the firm has lower debt to total means of finance ratio. As the firm mainly relies mostly on the customer advances and promoter funds which helps the group to maintain lower debt to total means of finance. On overall basis the group relies only 30-35% on debt and bank facilities.

There have been instances where the promoters and related parties of the group has infused funds of around Rs.13.56 Cr in FY17 in the form of unsecured loans when it was necessary to complete the projects. The same is expected to be continued in the near future in case of any cash crunch or liquidity issue.

Liquidity: Stretched

The liquidity profile of the firm remained stretched as the construction funding is dependent on customer advances and the sales velocity of projects have been relatively low as two of its projects are at initial stage. Nevertheless, as demonstrated in past, promoters have infused funds in the project at time of requirement ensuring timely construction of projects and debt repayments has cash and bank balances to the tune of Rs 2.96 crores and undrawn bank lines of Rs.26.00 Cr as on March 31, 2022. Further, the firm has customer advances receivables of Rs 32.54 crore as on March 31, 2022.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[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

G.R Constructions (GRC) was established in the year 1999 as a partnership firm and is promoted by Mr Ramana Babu and Mr Eshwar Naidu. The firm is engaged in the construction of residential apartments and villas. The firm undertakes projects largely in Joint Development Agreement (JDA) mode. Some of the real estate projects completed by the firm are GR Vista, GR Shanthinivas, GR Sagarnivas, GR Santhrupthi ph-1, GR Sankalpa and GR Shrushti among others. GRC is currently implementing 3 residential projects; GR Santhrupthi ,GR Samskruthi and GR Sitara in Bangalore.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-12-2021(Prov.)
Total operating income	45.03	36.69	38.00
PBILDT	11.07	11.95	NA
PAT	4.40	4.38	NA
Overall gearing (times)	0.60	0.51	NA
Interest coverage (times)	6.00	4.52	NA

A: Audited; Prov.: Provisional || NA: Not available

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	April 2028	100.00	CARE BB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (27-Jan-22) 2)CARE BB; Stable (27-Jan-22) 3)CARE BB; Stable (01-Apr-21)	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (31-Mar-20) 2)CARE BB-; Stable (03-Apr-19)
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (01-Apr-21)	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (31-Mar-20) 2)CARE BB-; Stable (03-Apr-19)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (03-Apr-19)
4	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (03-Apr-19)
5	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (27-Jan-22) 2)CARE BB; Stable (27-Jan-22) 3)CARE BB; Stable (01-Apr-21)	-	-
6	Fund-based - LT-Term Loan	LT	100.00	CARE BB+; Stable	-	1)CARE BB+; Stable (22-Feb-22)	-	-

LT: Long Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	Nil
B. Non-financial covenants	Nil

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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