Swagat Infrastructure Private Limited

October 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	80.00	CARE BBB-; Stable [Triple B minus; Outlook: Stable]	Assigned
Total Facilities	**80.00 (Rs. Eighty crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Swagat Infrastructure Private Limited (SIPL) derive strength from the vast experience and established track record of the promoter group in executing diverse real estate projects (residential, commercial & plotting), availability of large land bank, gradual recovery in the residential demand resulting in healthy bookings and receipt of customer advances and adequate liquidity.

The above rating strengths are, however, partially offset by implementation and salability risk associated its on-going projects, geographical concentration of its projects and its presence in a cyclical and competitive real estate industry.

Rating Sensitivities

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

- Successful completion of on-going projects within envisaged cost and time parameters.
- Better than envisaged pickup in demand leading to higher sales realization and timely receipt of customer advances

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

- Cost overrun by more than 20% of the envisaged cost along with significant delay in projects completion.
- Delay in receipt of advances from booked units or slower than envisaged bookings of unsold units.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters and established track record in real estate industry: SIPL belongs to Ahmedabad-based 'Swagat Group' which is promoted by Mr. Tarun Varma, managing director of SIPL. He is supported by his brothers, Mr. Gaurav Varma and Mr. Mrunal Varma. All the promoters have more than two decades of experience in the real estate industry and are actively engaged into operations of the company. The promoters are supported by a team of project managers, consultants, and engineers for execution of projects.

SIPL has an established track record of executing diverse real estate projects in the residential, commercial, plotted development segments. Further, the group (in various companies / firms) has developed 32 real estate projects with a total saleable area of around 47.94 lakh square feet (lsf).

Availability of large land bank: SIPL and its promoters have a large land bank of around 99 lsf in and around Gandhinagar and Ahmedabad. The promoters have purchased these land parcels long period back at very low prices and with the expansion of the cities, the market value of the same has grown substantially. The availability of large land bank provides significant financial flexibility for planning new projects as well as in case of any exigency.

Liquidity analysis: Adequate

SIPL is required to route all its receipts and payments related to the projects through the designated RERA account and escrow account maintained with the lender wherein cash flows would be utilized in a stipulated manner. With presence of such mechanism and requirement of lenders approval for usage of surplus cash flows, diversion of operating cash flows is likely to be restricted. As on June 30, 2021, for completion of ongoing projects, as against the balance construction cost of ~Rs.132 crore, customer advances receivable from booked inventory stood at Rs.138 crore.

The liquidity of the company remains adequate as reflected by gradual improvement in sales momentum post Covid-19 disruptions and the cash & bank balance stood at Rs.4.48 crore as on June 30, 2021. Further, the liquidity of the company is supported with sanction of working capital loans of around Rs.21.69 crore received from various banks under Guaranteed Emergency Credit Line (GECL) of RBI during FY21. Furthermore, SIPL has maintained Rs.1.34 crore with ICICI Bank and Rs.0.72 crore with State Bank of India as on June 30, 2021 under Debt service Reserve Account (DSRA).

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Key Rating Weaknesses

Moderate project execution risk and salability risk: SIPL is currently executing five residential cum commercial projects; Swagat Agacia (R), Swagat Bagan Villa (R), Swagat Queens Land Phase I (R&C), Swagat Queens Land Phase II (R&C) and Swagat Industrial Park (Plots). The project execution risk of Swagat Agacia and Swagat Industrial Park is low as SIPL has already completed more than 85% of construction as on August 31, 2021. Construction of high-end scheme Swagat Bagan Villa has been very slow due to slow booking pace. Nevertheless, it is a small size project and expected to complete within revised timelines. Project execution as well as booking pace remained healthy for the affordable housing projects- Swagat Queens Land Phase I & Phase II. Completion of ongoing projects and receipt of booking of balance units at envisaged price and timely receipt of customer advances shall be a key rating monitorable.

Geographical concentration risk: All the projects of SIPL are in the vicinity of Ahmedabad and Gandhinagar, resulting in significant geographical concentration. Any downturn in these micro markets would impact the cash flows adversely.

Exposure to cyclical and competitive real estate industry albeit gradual recovery post downturn in demand on account of Covid-19 pandemic: The real estate sector in India is highly fragmented with most of the real estate developers having a city-specific or region-specific presence, thus resulting in intense competition and pressure on bookings and sales realisation. Also, the sector is vulnerable to inherent risk of cyclicality in demand and interest rate risk, which is largely linked to macroeconomic cycles.
The residential segment has reported good recovery dipping it in Q1FY22 due to the second wave of COVID-19 pandemic. Moreover, the affordable housing and mid-price houses are expected to witness better demand with continuation of credit linked subsidy scheme by Government and policy impetus from the central as well as state governments coupled with lower lending rates have encouraged housing sales. Although the residential sector is witnessing green shoots of recovery, developers are facing strong headwinds due to sudden increase in input costs leading to rise in construction costs, limited availability of credit, tax and regulation complexities, labour shortages caused by reverse migration (though abated to a large extent). Highly leveraged balance sheets of several developers have added another layer of challenge for the sector.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology – Real Estate Sector

About the Company

Incorporated in 1996, Ahmedabad-based SIPL is promoted and managed by Mr. Tarun Varma, Mr. Gaurav Varma & Mr. Mrunal Varma. SIPL is engaged in the business of construction of residential & commercial projects, mainly at Gandhinagar and Ahmedabad in Gujarat.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	65.61	72.74
PBILDT	8.51	9.19
PAT	2.81	3.28
Overall gearing (times)	2.87	2.54
Interest coverage (times)	2.51	2.60

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Complexity level of various instruments rated for this Company : Please refer Annexure-3

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	NA	NA	NA	December 2025	80.00	CARE BBB-; Stable

NA: Not applicable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	80.00	CARE BBB-; Stable				

** Long Term / Short Term*

Annexure 3: Complexity level of various instruments rated for this company

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

Annexure 4: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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