Ramky Estates And Farms Limited

July 06, 2022

Rating

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities*	50.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Total Bank Facilities	**50.00 (₹ Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1.
***Proposed term loan

Detailed rationale and key rating drivers

The rating assigned to the proposed bank facilities of Ramky Estates and Farms Limited (REFL) factors in continuous improvement in scale of operations at the consolidated level, with sales improving from Rs 277.0 crore in FY20 to Rs 757.0 crore in FY22 at a CAGR of 65% with a healthy collection efficiency of 80%. Sales velocity has improved in FY22, standing at Rs 189.3 crore / quarter (PY: Rs 115.0 crore / quarter) and it continues to improve during the period April 2022 – May 2022 due to favorable demand for its projects in Hyderabad. REFL, along with its group entities, has sold 1.4 million square feet (msf) in FY22 with robust sales velocity for its ongoing projects, where in 4.58 msf was launched in FY22. The rating also factors in the established track record and its execution capabilities, having developed more than 10 msf over the past 27 years. The rating also derives strength from the prominent location of the on-going projects, presence of in-house execution via group entity, strong net worth, comfortable capital structure, track record of prepayment of debt in the past, strong land bank position, stable industry outlook and adequate liquidity position.

The rating, however, remain constrained by geographic concentration risk with majority of the ongoing development limited to the Hyderabad market, which has been mitigated by expanding to Bengaluru, Chennai and Visakhapatnam. The group is exposed to general market risk given that significant inventory will be made available. Further, with ~70% of the ongoing projects (in terms of project cost) in early stages of construction, also, given the high dependence on customer advances for project execution, construction progress is dependent on future sales and timely collections. Committed Cash Flow ratio (receivables over pending construction cost and debt outstanding) remains moderate at 21.37% as on April 30,2022 due to the launch of large sized projects during the past one year. The rating is also tempered by high exposure to group entities via Corporate Guarantee & advances and risk associated with real estate industry being subject to regulations and competition from other players.

Rating sensitivities

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

- Achievement of estimated sales and operating margins on a sustained basis.
- Unsold inventories falling below 24 months.

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

- Delay in project execution or slowdown in sales velocity leading to increase in unsold inventory.
- Any significant increase in group exposure leading to cashflow mismatches.
- Adjusted Gearing Ratio should not exceed 0.77x.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters with ample land bank and liquidity - REFL is part of Ramky Group, which has businesses in EPC, Waste Management, Real Estate and Life Sciences. Incorporated in 1995, REFL has experience of 27 years in executing projects across residential, commercial, retail, affordable housing, Integrated townships and Plotting ventures.

Mr Ayodhya Rami Reddy, Founder of the Ramky Group, is a Civil Engineer and currently a Member of Parliament. He takes care of the strategic decisions of the group and has business experience of more than three decades. Mr Nanda Kishore, Managing Director of REFL, is a graduate of IIM and has more than 25 years of experience in various reputed organizations, and who in turn is supported by professionals with vast experience in the real estate sector.

Established track record of completion of projects - As of April 2022, the company and its subsidiaries have completed over 30 projects with saleable area of 10.4 msf across Hyderabad, Bangalore, Chennai and Warangal. Further, the REFL group is currently developing 9 projects with total saleable area of 7.5 msf as on April 30, 2022. The group is also planning projects of 5.5 msf with in Hyderabad.

Strong net worth on account of infusion of funds by promoters - During FY19, the promoters have infused Rs 1522.0 crore for expansion & growth of the company. The capital is being utilized towards the operational and growth of the company, with the excess capital temporarily parked in interest bearing unsecured loans. Because of this, the capital structure is satisfactory, with overall gearing at 0.01x as on March 31, 2022.

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

Satisfactory sales velocity & collection albeit higher levels of inventory holding - Sales velocity has improved significantly from Rs 277.0 crore in FY20 to Rs 757.0 crore in FY22 (CAGR of 65%), while maintaining healthy collections at Rs 605 crore for FY22 (80%) due to favorable demand for its projects in Hyderabad, Chennai, Visakhapatnam and Bengaluru. The Company has sold 1.44 msf in FY22 as against 0.82 msf in FY21, the increased sales is in-line with increased launches of new projects of 4.85 msf in FY22 (P.Y. 2.06 msf), reflecting its strong brand recall in the Hyderabad market. The group has sold 1.62 msf (31%) and Rs 810 crore (24.1%) in value in the ongoing projects of 5.2 msf of developer's share. The company is maintaining a satisfactory collection efficiency of 80% in the past 3 years, with an average sales velocity of Rs 189.2 crore / quarter for FY22 (PY: Rs 115.0 crore / quarter), thereby having stock level at 3.43 years against the balance duration of 4.9 years for completion of the projects as per RERA.

Track record of prepayment of debt - The company has a track record of prepayment of loans prior to schedule. Since 2016, the company has availed term loans of Rs 240.25 crore and has repaid the same ahead of schedule. As on March 31, 2022, at the consolidated the group has a total debt of Rs 12.97 crore and unsecured loans of Rs 11.3 crore.

Stable industry outlook for Real Estate market - India's realty sector is showing signs for healthy growth in 2022. The pandemic has helped residential real estate to bounce back, and the recovery was fabulous. The recovery has been attributed to people having to work from home. The rise in salaries has led to people spending more on bigger and better properties over the last year. While some sectors in Real Estate have done pretty well, it has largely been a mixed bag. However, with a rising residential sector, there may be price rise soon. With demand shooting up, developers are expecting buyers to pay more.

Key Rating Weaknesses

High market risk for newly launched projects along with execution risk - REFL has launched large sized projects recently with 4.85 msf in FY22, which comprises 65% of the ongoing projects, thereby exposing the company to high market risk given the significant inventory will be made available. Even though, there has been healthy sales happening in the newly launched projects in Hyderabad, considering significant balance cost of construction to be incurred on those projects, any decline in demand trend will adversely affect the cash flow position of the company.
Committed cash flow ratio remains (receivables over pending cost and debt outstanding) moderate at 21.37% as of April 2022, against the significant pending construction cost, owing to launch of new projects, which reduces financial flexibility available in case of any decline in sales and collections. REFL executes its projects entirely through its group company Ramky Infrastructure Limited (RIL), thereby having better control in cost and quality of construction.

High reliance on customer advances - About 98% of the total cost of the ongoing projects is to be funded through customer advances. Comfort can be drawn from the group executing and delivering projects on time for the last 3 years, which are heavily relied on customer advance. From the ongoing projects, the group has received Rs 382.7 crore (47%) of the total committed receivable of Rs 809.9 crore and the construction progress stands at 17.9%. With the high dependence on customer advances, construction progress depends on future sales and timely collections. Ability of the company to implement the project within envisaged timelines and cost, achieving sales as per plan is critical from a credit perspective.

Exposed to geographical concentration risk – The Group is exposed to geographical concentration risk as the ongoing development is largely limited to the Hyderabad market. The group has attempted to foray into newer geographies in Bengaluru and Visakhapatnam.

Exposure to group entities via corporate guarantee and loans & advances – REFL (parent) has given corporate guarantee for the bank facilities of its group company Ramky Infrastructure Limited, which has substantially reduced to Rs 445.0 crore as on April 18, 2022 from Rs 1950.0 crore as on March 31, 2018 (i.e. reduction of Rs 1505 crore).
Also, REFL has made advances to various group entities/other corporates to the tune Rs 958.3 crore as on March 31,2022. However, adjusted gearing ratio (adjusted with Corporate Guarantee and Group exposure) stands satisfactory at 0.77x as on March 31, 2022 (PY: 0.94x). Further due to the subsequent reduction in corporate guarantee to Rs 445.0 crore, adjusted gearing ratio stands at 0.47x.

Risk associated with real estate industry being subject to regulations and competition from other players
Real estate sector demand is linked to the overall economic prospect of the country. Change in the economic outlook affects the expected cash inflows to a household, thereby also influencing their buying decision. Besides, as leverage forms an important part of funding for the buyer, availability of loan and interest rates also affects the demand of real estate properties. On the other hand, land, labour, cement and metal prices being some of major cost centres for the sector, availability of these factors plays important role in pricing and supply of new units. Hence, cyclicality associated with economic outlook, interest rates, metal prices, etc., also renders the real estate sector towards cyclicality. Moreover, the companies in the sector are also exposed to regulatory changes, especially in the countries such as India with evolving regulations. Also, there exists competition from up-coming and completed projects of other well-known developers in the region.

Liquidity: Adequate
The liquidity of the group is adequate as reflected by satisfactory collection efficiency of 80% and sales velocity of Rs 189.2 crore / quarter. Current unit holding is at 3.43 years (assuming past sales velocity) against the time remaining to completion of 4.9 years, indicating satisfactory inventory levels. Satisfactory capital structure with overall gearing at 0.01x as on March 31,

2022, leaving headroom to raise for any additional capex. The total unencumbered cash balance at the group level is at Rs 33.35 crore as on March 31, 2022.

Analytical approach - Care Ratings has considered the consolidated business and financial risk profiles of the Ramky Estates and Farms Limited and its 9 subsidiaries along with 1 step-down subsidiary, 4 associates and 1 Joint Venture, which are all engaged in the same business activity – real estate development and thus have management and financial linkages. The list of subsidiaries and step-down subsidiaries is provided in 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
Ramky Estates and Farms Limited (REFL) is promoted by promoters of Ramky Group, which has businesses in EPC, Waste Management, Real Estate and Life Sciences. Incorporated in 1995, REFL has experience of 27 years in executing projects across residential, commercial, retail, affordable housing, Integrated townships and Plotting ventures.
As of April 2022, the company and its subsidiaries have completed over 30 projects with saleable area of 10.4 msf across Hyderabad, Bangalore, Chennai and Warangal. Further, the REFL group is developing 9 projects with total saleable area of 7.5 msf as on April 30, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Prov.)	Q1FY23 (UA)
Total operating income	326.92	607.41	NA
PBILDT	-0.14	37.11	NA
PAT	39.09	74.10	NA
Overall gearing (times)	0.07	0.01	NA
Interest coverage (times)	-0.01	5.71	NA

A: Audited; Prov.: Provisional, NA: Not Available

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	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan (Proposed)		-	-	December 2024	50.00	CARE BBB+; Stable

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 (proposed)	LT	50.00	CARE BBB+; Stable				

*Long 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	Fund-based - LT-Term Loan	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 entities used for consolidation

S.No	Name	Type
1	Ramky Integrated Township Limited	Subsidiary
2	Ramky Viha Properties Private Limited	Subsidiary
3	Ramky Srisairam Properties Private Limited	Subsidiary
4	Ramky Truspace Homes Private Limited	Subsidiary
5	Ramky Villas Limited	Subsidiary
6	Evergreen Cleantech Facilities Management Limited	Subsidiary
7	Ramky Srivaishnava Builders Private Limited	Subsidiary
8	Ramky Vagmi Developers Private Limited	Subsidiary
9	Chennai Greenwoods Private Limited	Step-down subsidiary
10	Ramky Frontier Homes Private Limited	Subsidiary
11	Ramky Pharmacity Limited	Associate
12	Ramky Towers Limited	Associate
13	Ramky Signature One Private Limited	Associate
14	Ramky Atalian Private Limited	Associate
15	Ramky Wavoo Developers	Joint Venture

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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About us:
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