

**Pegasus Properties Private Limited (Revised)**

January 05, 2021

**Ratings**

Instrument	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Non-Convertible Debentures	121.70	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Total Instruments	121.70 (Rs. One Hundred Twenty-One Crore and Seventy Lakh Only)		

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The revision in the rating assigned to the Non-Convertible-Debentures (NCDs) of Pegasus Properties Private Limited (PPPL) factors in the lower than expected sales momentum and collection during FY20 (refers to the period April 2019 to March 2020) and H1FY21 (refers to the period April 2020 to September 2020) in respect of on-going projects due to COVID-19 induced economic lockdown and resultant impact on the credit risk profile of the company.

The rating also factors in low construction coverage ratio leading to huge dependence on customer advances, project execution risk, competition and geographical concentration of the projects as the company is developing various clusters in a sole project named 'Megapolis' located at Hinjewadi, Pune, subdued industry scenario, inherent cyclical nature of the real estate industry.

The rating, however, derives strength from experience of the promoters and management with established track record of the Kumar Group in Pune's real estate business marked by presence for around five decades, moderate sales momentum leading to low demand risk, availability of significant land bank and receipt of all major approvals.

**Rating Sensitivities****Positive Factor**

- Timely execution of the project within envisaged cost and timely realization of envisaged customer advances leading to adequate liquidity buffer to fund project progress and service the debt obligations on time.

**Negative Factor**

- Lower than envisaged progress in the project by 25% or more resulting in reduction in envisaged collection by 20% or more.
- Expected CCR (including surplus balance) falling below 1.07x

**Detailed description of the key rating drivers****Key Rating Weaknesses****Project execution risk**

The company is currently engaged in the construction of Megapolis project (five clusters- Symphony & Springs from phase-I and Saffron, Serenity & Mystic-II from phase-II) admeasuring 25.58 lsf in Hinjewadi phase-3, Pune. As on October 31, 2020, the company has already completed five clusters from phase-I (Sangria, Sparklet, Sunway, Splendor and Mystic-I) admeasuring 58.85 lsf with total project cost Rs.1701.09 cr. Also, Symphony (phase-I) admeasuring 2.53 lsf is almost complete with minor finishing to be done in few units.

As on October 31, 2020, the company incurred ~Rs.341.10 cr out of the total project cost of Rs.930.63 cr (that is ~36.65%). Out of the estimated construction cost the company incurred about 25.58% till October 31, 2020 which demonstrates initial stage of execution. The 'Symphony' and 'Springs' (from phase-I) are mostly in advance stage of execution whereas the Projects of Phase-II are in moderate to initial stages of execution. 'Serenity', launched in December 2019, is the largest project under execution (9.34 lsf of saleable area and Rs.360.49 cr of total estimated cost) by the company with around 13.44% of total cost incurred as on October 31, 2020. The sales and construction of Mystic-II are currently halted and same is proposed to be launched soon. The pace of execution remained slow for all the on-going projects due to nationwide lockdown after COVID-19 pandemic outbreak. However, since 5 out of 7 clusters of Megapolis Phase-I have already been

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

completed admeasuring total saleable area of around 58.85 lsf, it demonstrates the company's ability to undertake and successfully execute the projects, which mitigates the project execution risk to some extent.

***Reliance on Customer advance to a large extent and adverse capital structure with moderate construction cost + debt coverage ratio leading to funding risk***

The current on-going projects were envisaged to be funded in a funding mix of debt (15.93%), customer advances (77.71%) and promoter's fund (6.36%). As on October 31, 2020, the company incurred Rs.341.10 cr (around 36.65% against 42.77% as envisaged during last review) on its projects by infusing promoter's fund of around Rs.59.20 cr, debt of Rs.148.21 cr and the rest from customer advances. The company has unsold inventory of Rs.802.92 cr (Rs.710.98 cr from ongoing projects and Rs.91.94 cr from completed projects; assuming the average rate) with the balance project cost of Rs.589.53cr. The debt + balance project cost coverage ratio is about 43.15%, hence, a significant proportion is proposed to be funded from the customer advances which can lead to funding risk. Furthermore, although the NCDs have payable when able structure of coupon payments and bullet redemption (to be redeemed in March 2023) the CCR for same remains sensitive in March 2023. Therefore, timely realization of envisaged customer advances remains a key rating monitorable.

***Competition and Geographical concentration of projects***

All the on-going projects are currently in Hinjewadi, Ph-3, Pune, thus there is a significant geographic concentration. Any downturn in such markets will impact group's revenues going forward. Further, there are many new upcoming projects in these areas which are being developed by other players in the market. The other projects will result in additional inventory, which may lead to downward pressure on selling prices and saleability risk. However, considering the outlook of real estate segment in the micro markets, the company is placed in favourable position. Further, the Kumar Group, in its pipeline has few city centric projects which would enhance the brand awareness and overall risk profile of the company.

***Impact of COVID-19***

The operations of PPPL were affected from March 20, 2020 onwards where the company had to stop the construction of its project due to nationwide lockdown. However, the same could be resumed by beginning of July 2020. Further, PPPL too experienced shortage of labor during the lockdown period due to reverse migration of construction labors to their respective hometowns which resulted into slow pace of execution. The COVID-19 led lockdown hampered sales and collection of the company too where the first priority for home buyers remained cash conservation. However, collection from buyers financed by bank loans remained overall moderate.

***Subdued industry scenario***

With the on-going economic conditions, the real estate industry is currently facing issues on many fronts, including subdued demand, curtailed funding options, rising costs, restricted supply due to delays in approvals, etc. thereby resulting in stress on cash flows of developers. Further, outbreak of Covid-19 is expected to further stress the builders to offload the properties, especially in nascent stage, with the construction to remain slow for considerable time owing to reverse migration of labourers, lower GDP and macro-economic headwinds. The company is also exposed to the weakened financial capability of end users which may result into delay in timely receipt of customer advances.

However, despite the pandemic and the Indian economy being officially in recession, Pune's real estate industry has seen healthy green shoots which has brightened the hope for better results in the New Year. Pune has seen the highest sales of tenements in the country in the current quarter. Pending demand and lowering of stamp duties by the state government is said to be the main reasons for the bullish sales in the city.

***Cyclical nature of the industry***

The real estate sales in the residential segment have remained tied and unsold inventory has further increased in the major cities. To support the ailing real estate sector, various measures such as relaxation of FDI norms, passage of Real Estate Bill, etc, have been undertaken in the right direction. Although the interest rates have moderated, buyer sentiments are yet to improve. Any adverse impact due to macro- economic factors including slow down and adverse regulatory changes may have an impact on the sales velocity and thus impact cash flow of the companies operating in the real estate sector.

**Key Rating Strengths**

***Experienced promoters and management***

Pegasus Properties Private Limited (PPPL) is a joint venture between to Kumar Properties group, founded in 1966 & Avinash Bhosale Industries Ltd (ABIL) and is engaged in the business of real estate development. Currently, it is developing a residential project namely, Megapolis in Pune and in which it has successfully developed around 58.85 lacs square feet (lsf) of area and is currently developing 25.58 lsf of area under the said project.

### **Moderate sales momentum leading to low demand risk**

The firm launched around 2592 residential units for sale in the current on-going projects, out of which 1538 units (59.34%) were booked as on October 31, 2020. The firm successfully registered around 1396 units which is 90.77% of total units sold leading to lesser units prone to cancellation. In the past one year the company sold 501 units and so at the same sales velocity the remaining inventory (1054 units) can be sold in around 34 months. But, excluding sales during April to August 2020 (COVID-19 impacted months) company sold 256 units (sales value Rs.108.99 cr) in five months (Jan 2020 to March 2020 and Sept 2020 to Oct 2020), hence, at the same sales velocity the remaining inventory of on-going projects can be sold in 26 months. However, the actual collection from sales remained lower by around 25% against what was envisaged (during last review). Going forward, the ability of the company to receive envisaged, stage wise customer advances on time from the sold units shall remain key rating sensitivity.

### **Availability of land bank**

As articulated by the management, company has a land bank in Pune admeasuring 45 lsf with 1.25 cr sqft. of eligible FSI. The same is proposed to be used for new projects in the upcoming year.

### **Receipt of all major approvals**

All the relevant approvals have already been procured by the company for its on-going project which mitigates the risks associated with delays in getting the relevant approvals for the implementation of the project. However, requisite approvals for towers A1 and A2 in Saffron proposed for launch is yet to be obtained.

### **Liquidity: Adequate**

The liquidity of the company is adequate as reflected from consistent customer collection and sales momentum. The company has balance receivable of Rs.312.98 crore from projects which would lend support in meeting the expenses of the project partially. Further due to comfortable liquidity position and consistent customer collection, the company has initiated the coupon payments accrued on NCDs from October 2020. Therefore considering the receivables, regular customer collection, cash and bank balance of Rs.18.23 cr as on October 31, 2020 and repayment of debt (Rs.83.61 cr for FY21), the liquidity position of the company appears adequate. There is no scheduled redemption of the NCDs in FY21, however, as per DTD the same is to be redeemed by end of March 2023.

### **Analytical approach: Standalone**

#### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non Financial Sector](#)

[Rating methodology for Real Estate Sector](#)

[Liquidity Analysis](#)

### **About the Company**

Pegasus Properties Private Limited was established in 2007 to undertake a 150 acre real estate project-Megapolis. The company is a joint venture between to Kumar Properties group, founded in 1966 & Avinash Bhosale Industries Ltd (ABIL) and is engaged in the business of real estate development. It has also diversified into engineering construction and plant biotechnology business. The company is currently developing a project in Hinjewadi Phase-3, Pune with the name of Megapolis admeasuring 25.58 lsf and estimated project cost of Rs.930.63 crore.

<b>Brief Financials (Rs. crore)</b>	<b>FY19 (A)</b>	<b>FY20 (A)</b>
Total operating income	94.68	181.01
PBILDT	17.57	17.85
PAT	5.10	4.28
Overall gearing (times)	NM	66.88
Interest coverage (times)	3.39	2.18

A: Audited; UA: Unaudited; NM: Not Meaningful

**Status of non-cooperation with previous CRA:** None

**Any other information:** Nil

**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	Date of Issuance	ISIN	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	September 21, 2018	INE01KY07013	12% p.a.	March 31, 2023	121.70	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	121.70	CARE BB-; Stable	-	1)CARE BB; Stable (07-Jan-20)	1)CARE BB; Stable (31-Aug-18)	-

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

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	
<b>a. Coupon Rate</b>	12% p.a
<b>B. Non-financial covenants</b>	
<b>a. Call Option</b>	The Issuer shall within 30 (Thirty) days from the Moratorium Principal Period ("Call Option Trigger Period") shall have an option to call the Debenture Holders by sending them a notice in writing ("Call Option Notice") making an offer for redemption of certain Debentures such that 38.95% of the Debentures are redeemed ("Call Debentures") at a price which provides the holders of the Call Debentures their respective Debenture Subscription Amount along with an overall IRR of 12% thereon (" Call Option Price")
<b>b. Put Option</b>	In the event the Issuer fails to exercise the right of Call Option as stated in Clause or in the event the Issuer fails to redeem the Call Debentures at the Call Option Price, the Debenture Holders shall have the option to put to the issuer to redeem all or such number of debentures at a price which provides the holders of the Put Debentures their respective Debenture Subscription Amount along with an overall IRR of 22% thereon ("Put Option Price").
<b>c. No Lien / Tag Along</b>	All shares and other securities issued to Investors shall be free from all encumbrances and liens. Investors shall not be required to pledge its holding of shares and/or other securities in the Company, or provide any guarantee or any other security or other support to any third party, including but not limited to the lenders of the Company. The securities held by Investors would be freely transferable and that Investors, shall have the right to sell its investments in the Company, to anybody without the consent of the Company. The Company shall not transfer its obligations under the Investment.
<b>d. Security</b>	<ul style="list-style-type: none"> <li>First and exclusive charge over the Project (including entire development FSI) with minimum security cover as required under applicable laws;</li> </ul>

Name of the Instrument	Detailed explanation
	<ul style="list-style-type: none"> <li>• First charge on receivables</li> <li>• Escrow account maintained with a bank acceptable to the Investors;</li> <li>• Personal guarantee from the Promoters.</li> <li>• Non Disposal Undertaking from the Promoters for their shareholding in the Company.</li> </ul>

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Complex

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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