Hero Realty Private Limited

January 17, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	350.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Total Bank Facilities	**350.00 (Rs. Three Hundred Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Hero Realty Private Limited (HRPL) derives comfort from strong managerial and financial linkages of the entity with Hero Enterprise group as well as healthy financial flexibility of the group basis assessment of the market value of investments covering over seven times of total debt at group level. Moreover, as a real estate arm, HRPL is a strategically important entity for the group as evidenced by infusion of around Rs.780 crore of funds, over the years, which is likely to remain in the entity. The rating also takes comfort from satisfactory booking status of real estate projects marked by recent improvement in sales momentum, advanced stage of completion of majority of projects indicating limited execution risk, and comfortable funding pattern characterized by strong funding support by promoter.

The rating is, however, constrained by high reliance on customer advances for funding the future project costs, low committed receivables coverage to fund balance project cost and outstanding debt, limited geographic presence, and inherent cyclicality associated with real estate sector. Going forward, as demonstrated in the past, the group will continue to extend support in the event of any cash flow mismatch. Furthermore, any surpluses that will be generated in the entity in the forthcoming years shall remain available for the exigencies.

Rating Sensitivities

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

- Significant advancement in execution of overall development portfolio (including recently launched projects) without any time or cost overrun.
- Improvement in the percentage of committed receivable to cover balance project cost and outstanding debt to 70% and above.
- Receipt of better than envisaged collections on account of improved sales momentum

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

- Increase in debt levels of the group or significant deterioration in market value of investments leading to deterioration in the ratio of market value of investments/total debt at group level falling below four times on a sustained basis
- Any material changes in the shareholding pattern with stake of Hero Enterprise Group falling below 51%
- Expansion in the overall development portfolio resulting in increase in indebtedness of the entity and/or weakening of operational metrics, significantly

Detailed description of the key rating drivers

Key Rating Strengths

Strategic importance of the entity: As a real estate arm, HRPL remains integral for the Hero Enterprise group to expand its footprints in real estate business. HRPL is indirectly wholly owned by Mr. Sunil Kant Munjal and thus being part of the group, it benefits from strong financial profile of the group. The company derives managerial support from Hero Enterprise group with Mr. Sunil Kant Munjal being chairman of the group and entity. This apart, the company shares common brand name and the real estate projects of the company are also marketed with common brand name viz. 'Hero Homes'. These factors reflect strong linkages between Hero Enterprise group and HRPL, implying strategic importance of the entity and strong moral obligation on the part of group to extend support to entity, whenever required.

Funding pattern characterized by strong financial support from Hero Enterprise group: Over the years, the company has been adequately supported by the group as evident from infusion of more than Rs. 780 crores of funds in the entity by way of unsecured loans, preference share capital and equity share capital. As on Sep 30, 2021, amongst ongoing projects, the company has incurred project cost of around Rs. 2214 crore, 34% of which is funded through promoter contribution, 16% through debt and 50% through customer advances. Total project cost of Rs. 3180 crore is projected to be funded to the tune of 24% by way of promoter contribution, 11% through debt and balance through customer advances (65%). With low debt level and high promoter infusion, the funding pattern of the company remains comfortable.

Comfortable booking ratio owing to recent improvement in sales momentum and healthy collection efficiency: As on September 30, 2021, HRPL has sold inventory to the tune of Rs.1,309 crore, out of total revenue potential of ongoing projects of Rs. 2,056 crore. Thus, company has witnessed satisfactory bookings of around 64% indicating healthy cash flow visibility. This is also attributable to recent improvement in the sales momentum of the projects. Over past three quarters

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

ending September 30, 2021, the company has sold around 515 units as against 101 units in preceding three quarters. HRPL has recently launched phase-II of Mohali project in April-21 and it has booked around 60% of total launched units which constitutes 16% of total units at project level. Furthermore, the company is in advanced stage for obtaining approvals for launch of phase-II of Ludhiana project and hence going forward, sales momentum is expected to remain healthy. Due to near completion stage of Mohali (Phase-I) and Ludhiana (Phase-I) and Haridwar projects, the company has been able to collect around Rs. 1,108 crore, which is around 85% of total sold inventory. Over past 6 months ended September 30, 2021, the company has maintained healthy collection efficiency of 87%.

Advanced stage of completion of projects: The group is currently developing six projects (Mohali – 3 phases and Ludhiana – 3 phases) spread out at an area of around 39 lsf, which includes three launched projects, while three projects are under pipeline to be launched in coming two years. As on September 30, 2021, the group has already incurred around 70% of total projected cost. Amongst ongoing projects, 2 projects viz. Mohali Phase-I and Ludhiana Phase-I are in advanced stage of completion, while Mohali Phase-II has been recently launched. The other three projects are yet to be launched, although land cost for such projects has been incurred already. While the construction is moving as per schedule, residual execution risk exists, in the light of scenario that any delay in the receipt from customers or lesser than envisaged bookings may impact the progress of the development.

Key Rating Weaknesses
Project execution being majorly dependent on customer advances:
Amongst ongoing projects, the company is yet to incur balance project cost of around Rs.560 crore as on Sep 30, 2021. The same is entirely planned to be funded through customer advances. Out of such customer advances, the company has committed receivables of around Rs.202 crore however balance Rs.358 crore is expected to be funded through fresh sales of unsold inventory. Hence, with significant reliance on funding from the customer advances pertaining to unsold inventory, company remains exposed to any cash flow mismatches arising out of low demand. Nevertheless, the group has demonstrated track record of infusing funds, as and when required and hence in future as well, CARE Ratings expects group to extend adequate support in the case of any exigency.

Low level of committed receivables coverage: The development portfolio of the company consists of majority of projects in advanced stage of completion where more than 80% of sales value stands collected. With advanced stage of execution of majority of projects, and bookings for Mohali Phase-II not yet substantial due to recent and part launching of project, the overall level of committed receivables stand low to fund the balance project cost, which remains high as recently launched projects are in nascent stage. This apart, the outstanding debt position of the company remains moderately high at around Rs 375 crore (constituting around 17% of project cost incurred). Overall, as on September 30, 2021, the company has receivables of around Rs. 202 crore from sold units against balance project cost and outstanding debt aggregating to Rs. 934 crore indicating low coverage ratio of around 29%.

Limited geographic presence*:* All the ongoing projects are currently being executed in Ludhiana and Mohali, thus there is considerable geographic concentration. Even the future projects (Mohali and Ludhiana Phase-II and III) are planned to be launched in these areas. Any downturn in such micro markets may impact developer's revenues going forward. Further, there are many new upcoming projects in these areas which are being developed by other players in the market which would result in additional inventory and may build negative pressure on selling prices and enhance marketing risk.

Inherent cyclical nature and outlook of the real estate sector: The company is exposed to the cyclicality 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 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 may 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: Adequate
The company has free liquid funds of Rs.4.57 crore as on September 30, 2021. Average utilization for OD facility of Rs. 28.75 crore for past 12 months ended September 2021 stood at 69%, reflecting unutilized limit of close to Rs.9 crore. The company has adequate cash flows from the real estate business with cash coverage ratio (including accumulated surplus) to remain adequate to meet upcoming debt obligations. Over next four quarters, the company is expected to realize around Rs. 164 crore of net project inflows as against debt obligations of Rs.79 crore. Furthermore, the group has demonstrated track record of supporting the entity with infusion of around Rs. 780 crore in the real estate business, hence, such funding support from group, as and when required, lends adequate comfort. The company had availed both the moratorium (Moratorium-I and II) for its debt facilities.

Analytical approach: Standalone along with factoring strong managerial and financial linkages with Hero enterprise group and strategic importance of entity to the group.

Applicable Criteria
Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Investment Holding Companies
Rating Outlook and Credit Watch
Rating methodology for Real estate sector

About the Company
Incorporated in 2006, Hero Realty Private Limited is part of Hero enterprise Group, and is engaged in business of real estate development. HRPL has developed approximately 150 acres (~65 lsf) of residential townships in Haridwar along with 230 acres (~100 lsf) of industrial parks in Haridwar. Out of this, residential projects were spread out at an area of 47 lsf, while other 118 lsf were mainly plotted projects. Presently, HRPL is developing residential projects in Mohali and Ludhiana spread out at an area of 23 lsf and 16 lsf respectively in three phases in both the projects.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	30-09-2021 (UA)
Total operating income	128.39	108.96	NA
PBILDT	13.13	24.86	NA
PAT	-16.87	-1.25	NA
Overall gearing (times)	6.45	6.66	NA
Interest coverage (times)	0.48	1.07	NA

A: Audited; UA: Unaudited; NA: Not available
Status of non-cooperation with previous CRA: Not applicable

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		-	-	-	350.00	CARE A+; 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 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	350.00	CARE A+; Stable				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated 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**

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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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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