# Ramky Estates and Farms Limited

October 05, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities* | 50.00 | CARE BBB; Stable | Revised from CARE BBB+; Stable |

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

## Rationale and key rating drivers

The revision in the rating assigned to the proposed facility of Ramky Estates and Farms Limited (REFL) is on account of the increase in group exposure to group entities via corporate guarantee (CG; increase to ₹1,050 crore as on March 31, 2023), loans and advances given to group entities and other corporates (increase to ₹1,261.87 crore as on March 31, 2023), and due to the construction risk associated with the Genext Square (commercial) project, as 50% of the construction cost depends on the sale of the Genext Towers (residential) project.

The rating continues to derive strength from the continuous improvement in the scale of operations at the consolidated level, with sales improving from ₹277.0 crore in FY20 to ₹1,068.0 crore in FY23 at a CAGR of 40%, with a healthy collection efficiency of 72%. The sales velocity has improved in FY23 (₹267 crore per quarter for FY23; PY: ₹189.28 crore per quarter) and it continues to improve during the April-August 2023 period due to the favourable demand for its projects in Hyderabad.

The rating also factors in the established track record and its execution capabilities, having a developed area of more than 10 million square feet (msf) over the past 27 years. The rating also derives strength from the prominent location of the ongoing projects, the presence of in-house execution via group entities, the strong net worth, comfortable capital structure, track record of prepayment of debt in the past, the strong land bank position, stable industry outlook, and adequate liquidity position.

The rating, however, remains constrained by geographic concentration risk, with majority of the ongoing developments limited to the Hyderabad market. The risk has, however, been mitigated by expanding to Bengaluru, Chennai, and Vizag. The group is exposed to general market risk, given that significant inventory will be made available. Furthermore, with around 54% of the ongoing projects (in terms of project cost) in early stages of construction and also given the high dependence on customer advances for project execution, the construction progress is dependent on future sales and timely collections. The committed cash flow ratio (receivables over pending construction cost and debt outstanding) remains moderate at 20.58% as on August 31, 2023, due to the launch of large-sized projects during the past one year. The rating is also tempered by the inherent risk associated with the real estate industry being subject to regulations and competition from other players.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors**

- Achievement of estimated sales and operating margins on a sustained basis.
- Unsold inventories falling below 24 months.
- Release of CG issued towards group entities.

**Negative factors**

- Delay in project execution or slowdown in sales velocity, leading to an increase in the unsold inventory.
- Any significant increase in group exposure, leading to cash flow mismatches.

## Analytical approach

Care Ratings Limited (CARE Ratings) has considered the consolidated business and financial risk profiles of REFL and its nine subsidiaries along with one step-down subsidiary, four associates, and one joint venture (JV), 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.

## Outlook: Stable

The company will continue to derive benefits from the established presence of the brand in the local market, the experienced professional team at the helm, and the established track record of completion of projects.

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

## Detailed description of the key rating drivers

**Key strengths**

**Experienced and resourceful promoters with ample land bank**

REFL is part of the Ramky group, which has businesses in engineering, procurement, and construction (EPC), waste management, real estate, and life sciences. Incorporated in 1995, REFL has an experience of 27 years in executing projects across residential, commercial, retail, affordable housing, integrated townships, and plotting ventures.

Ayodhya Rami Reddy, Chairman 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 two decades. Nanda Kishore, Managing Director of REFL, is a graduate of the Indian Institute of Management (IIM) and has more than 25 years of experience in various reputable organisations. He is, in turn, supported by professionals with vast experience in the real estate sector. Alla Sharan Reddy, son Ayodhya Rami Reddy, and a post-graduate in construction management, is also involved in the business. The promoters along with the professional management team are expected to drive the business growth.

**Established track record of completion of projects**

As on August 2023, the company and its subsidiaries have completed over 31 projects with a saleable area of 10.77 msf across Hyderabad, Bengaluru, Chennai, and Warangal. Furthermore, the REFL is developing 14 projects with a total saleable area of 13.80 msf and a developer share of 9.66 msf (70.00%) as on August 31, 2023. This apart, the group is also planning the development of 6.69 msf of real estate in Hyderabad (6.29 msf) and Bengaluru (0.40 msf) in the upcoming years. The sustenance of the track record is expected to consolidate company's position in the real estate market of Hyderabad.

**Strong net worth on account of the infusion of funds by promoters**

During FY19, the promoters infused ₹1,522.0 crore for the expansion and growth of the company. The capital is being utilised towards the operations 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 an overall gearing at 0.04x as on March 31, 2023. Considering company's plans to avail construction finance for the commercial project, the overall gearing shall increase though expected to remain comfortable.

**Satisfactory sales velocity and collection, albeit higher levels of inventory holding**

The sales velocity has improved significantly from ₹277.0 crore in FY20 to ₹1,068.0 crore in FY23 (CAGR of 40%) while maintaining healthy collections at ₹777 crore for FY23 (i.e., 72%) due to the favourable demand for its projects in Hyderabad. However, for its project 'The Golden Circle', the construction has been completed but it has slow sales velocity, with 65% of the project sold as on August 31, 2023. The company is maintaining a satisfactory collection efficiency of 118% in the last two years with an average sales velocity of ₹267 crore per quarter for FY23 (PY: ₹189.28 crore per quarter), however, due to the launching of new projects, the stock level stands at 3.36 years against the balance duration of 3.47 years for the completion of projects as per the Real Estate Regulatory Authority (RERA). During April-August 2023, the company achieved an average sales of ₹114 crore per month with collections of ₹76.60 crore per month.

**Track record of prepayment of debt**

The company has a strong record of prepayment of loans prior to schedule. Since 2016, it has availed term loans of ₹240.25 crore and has repaid the same ahead of schedule. As on March 31, 2002, the company has a total debt (TD) of ₹12.97 crore and unsecured loans of ₹11.3 crore. The group is expecting to avail debt of ₹200 crore in the Genext Square (commercial) project, with all other projects remaining debt-free.

**Stable industry outlook**

The residential sector is among those that witnessed a robust recovery post the first wave of the COVID pandemic in the year 2020, however, it has seen a dip in new launches across the metros and non-metros during Q22021. The sector has registered significant growth between Q32021 and Q12022, surpassing the pre-COVID levels. The top seven cities in India witnessed new launches of approximately 89,100 new units in Q12022 as opposed to 73,800 units in Q42021 and 62,100 units in Q12021, indicating 21% quarterly growth and 43% y-o-y rise. Hyderabad has witnessed accelerated growth post creation of the new state of Telangana, which put an end to the political unrest in the region, with greater stability. Proactive government policies, investor-friendly climate, and government focus, coupled with the inherent strengths of the city as a prominent IT hub, strong institutional base, and significant demographic dividend has propelled the economic growth of the city. Changing demographics, enhanced need of the homebuyer to own a home, realisation to upgrade to larger living spaces with better amenities amid the work-from-home and hybrid work policies, among other factors, sparked a sharp growth in sales volumes to even exceed to pre-COVID home sales figures.

**Key weaknesses**

**Increase in exposure to group entities via CG and loans and advances**

REFL (the parent) has given ac CG for the bank facilities of its group company, Ramky Infrastructure Limited (RIL), which was substantially reduced to ₹445.0 crore as on April 18, 2022, from ₹1,950.0 crore as on March 31, 2018 (i.e., a reduction of ₹1,505 crore). The total CG was again increased to ₹1,050 crore as on March 31, 2023.

The additional CG as on March 31, 2023, of ₹605 crore is given for the Srinagar Banihal Expressway Limited (SBEL) for a one-time settlement (OTS), apart from the existing guarantee given. Thus, the total CG has increased to ₹1,050 crore as on March 31, 2023. RIL has already received conditional approval from the State Bank of India (SBI) to release the CG availed from REFL, subject to providing collateral of ₹100 crore exclusive to SBI. RIL has identified land parcels admeasuring 150 acre, for which the valuation has been received from Cushman and Weikfield India of ₹225 crore. The process of due diligence has begun at the SBI level to avail this as collateral. Thus, replacement of the existing properties of REFL seems achievable along with the release of CG. SBEL (the group company) has already paid ₹425 crore worth of OTS repayment and the balance is yet to be paid. Hence, SBEL is proposing to refinance the balance portion of loan with two non-banking financial companies (NBFCs) – PFC and IIFCL – where there is no need of CG, given that sufficient collateral is provided for the same. As per the management, the sanction is expected by the end of the month. REFL has made advances to various group entities and other corporates to the tune of ₹1,261.87 crore as on March 31, 2023 (PYE: ₹938.72 crore). This, along with the increased CG, leads to negative adjusted net worth for the company. Thus, the release of CG and realisation of advances given to various group entities and other corporates is critical from the credit perspective.

**High market risk for newly launched projects along with execution risk**
REFL has launched large-sized projects recently, with 7.29 msf in FY23, which comprises 53% of the ongoing projects. This is higher than the large launches during June 2022, when the initial rating was assigned. There have been healthy sales happening in the newly launched projects in Hyderabad; and considering the 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.

The balance cost to complete the projects is estimated at ₹4,381 crore (79%) as on August 2023, primarily due to the launch of new projects, thereby exposing REFL to execution risk. For the Genext Square (commercial) project, ₹550 crore cost is expected to be incurred in the next three years, for which REFL is envisaging to avail a construction loan of ₹200 crore and raise ₹50 crore from promoters and others. The balance ₹300 crore cost is expected to be infused from the surplus of the Genext Towers (residential) project. As on August 2023, REFL has incurred a cost of about ₹63 crore in the said commercial project through promoters' funds. This apart, the sale value of Genext Towers as on August 2023 is about ₹378 crore, which covers the entire construction cost of the project. However, going forward, the timely sales of the Genext Towers is critical from the credit perspective, as the surplus of the same is expected to be used in the commercial project.

There has been significant improvement in the sales velocity of REFL's projects due to high demand, specifically in Hyderabad. Most of the projects are launched in Hyderabad. However, REFL is not restricted to a specific zone of Hyderabad; the newly launched project is spread across all the zones of Hyderabad, which has unlocked the less explored area of the Hyderabad market for further launch of the projects.

**High reliance on customer advances**
About 96% 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 past three years, which are heavily relied on customer advances. From the ongoing projects, the group has received ₹1,254.85 crore (139%) against total committed receivables of ₹901.43 crore and the construction progress stands at 20.71%. With the high dependence on customer advances, the construction progress depends on future sales and timely collections. The ability of the company to implement the project within the envisaged timelines and cost, achieving sales as per the plan, is critical from the 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's attempts to foray into newer geographies in Bengaluru and Vizag met with limited success. However, the company is evaluating better opportunities in these locations.

**Risk associated with real estate industry being subject to regulations and competition from other players**
The real estate sector demand is linked to the overall economic prospects of the country. Changes 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, the 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 the major cost centres for the sector, the availability of these factors plays an important role in the pricing and supply of new units. Hence, the cyclicality associated with the 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 countries such as India with evolving regulations. Also, there exists competition from upcoming and completed projects of other well-known developers in the region.

**Liquidity**: Adequate
The liquidity of the group is adequate, as reflected by the satisfactory collection efficiency of more than 100% and sales velocity of ₹267 crore per quarter. The current unit holding is at 3.36 years (assuming past sales velocity) against the time remaining to completion of 3.47 years, indicating moderate inventory levels. The capital structure is satisfactory, with the overall gearing at 0.04x as on March 31, 2023. The company has made advances to various group entities and other corporates to the tune of ₹1,261.87 crore as on March 31, 2023, and an additional CG as on March 31, 2023, leading to a negative adjusted overall gearing.

However, the release of CG and the realisation of advances extended is expected to be happen in FY24. REFL has already received about ₹35 crore in Q1FY24. The total unencumbered cash balance at the group level is at ₹33.17 crore as on March 31, 2023.

## Assumptions/Covenants
Not applicable

## Environment, social, and governance (ESG) risks
Not applicable

## 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]
[Policy on Withdrawal of Ratings]

## About the company and industry
**Industry classification**

| Macro-economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Consumer Discretionary | Realty | Realty | Residential, Commercial Projects |

REFL is promoted by the promoters of the Ramky group, which has businesses in EPC, waste management, real estate, and life sciences. Incorporated in 1995, REFL has an experience of 27 years in executing projects across the residential, commercial, retail, affordable housing, integrated townships, and plotting ventures.

As on August 2023, the company and its subsidiaries have completed over 31 projects with a saleable area of 10.77 msf across Hyderabad, Bengaluru, Chennai, and Warangal. Furthermore, REFL is developing 14 projects with a total saleable area of 13.80 msf and a developer share of 9.66 msf (70.00%) as on August 31, 2023. This apart, the group is also planning the development of 6.69 msf of real estate in Hyderabad (6.29 msf) and Bengaluru (0.40 msf) in the coming years.

**Consolidated Financials**

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | Q1FY24 (UA) |
|---|---|---|---|
| Total operating income | 674.14 | 523.63 | 49.13 |
| PBILDT | 103.74 | 71.21 | 3.65 |
| PAT | 74.20 | 41.89 | 4.79 |
| Overall gearing (times) | 0.02 | 0.04 | 0.31 |
| Interest coverage (times) | 17.23 | 10.27 | 3.76 |

A: Audited; UA: Unaudited. Note: The above results are the latest financial results 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 the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated**: Annexure-4

**Lender details**: Annexure-5

### 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 | | - | - | December 2024* | 50.00 | CARE BBB; Stable |

*Proposed

### 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 2023-2024 | 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 |
| 1 | Fund-based - LT-Term Loan | LT | 50.00 | CARE BBB; Stable | - | 1)CARE BBB+; Stable (06-Jul-22) | - | - |

*Long term/Short term.

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

Not applicable

### Annexure-4: Complexity level of the various instruments rated

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

### Annexure-5: Lender details

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

### Annexure-6: List of entities used for consolidation

| S. No | Name | Type | REFL holding as on March 31,2023 |
|---|---|---|---|
| 1 | Ramky Integrated Township Limited | Subsidiary | 94.02% |
| 2 | Ramky Viha Properties Private Limited | Subsidiary | 51% |
| 3 | Ramky Srisairam Properties Private Limited | Subsidiary | 60% |
| 4 | Ramky Truspace Homes Private Limited | Subsidiary | 100% |
| 5 | Ramky Villas Limited | Subsidiary | 100% |
| 6 | Evergreen Cleantech Facilities Management Limited | Subsidiary | 100% |
| 7 | Ramky Srivaishnava Builders Private Limited | Subsidiary | 51% |
| 8 | Ramky Vagmi Developers Private Limited | Subsidiary | 51% |
| 9 | Chennai Greenwoods Private Limited | Step-down subsidiary | 100% |
| 10 | Ramky Frontier Homes Private Limited | Subsidiary | 70% |
| 11 | Vishakha Pharmacity Limited (Ernst. Ramky Pharmacity Limited) | Associate | 38% |
| 12 | Ramky Towers Limited | Associate | 49% |
| 13 | Ramky Signature One Private Limited | Associate | 50% |
| 14 | Ramky Atalian Private Limited | Associate | 30% |
| 15 | Ramky Wavoo Developers | Joint Venture | 50% |

**Note on the 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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