Ramky Estates And Farms Limited

February 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	225.00 (Enhanced from 50.00)	CARE BBB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the rating assigned to the proposed facility of Ramky Estates and Farms Limited (REFL) is on account of the expected reduction in group exposure to group entities via corporate guarantee (CG; expected to be reduced to ₹445.00 crore as on January 31, 2024), loans and advances given to group entities and other corporates (reduced to ₹917.87 crore as on December 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-December 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 20.98 % as on December 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

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

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.

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 December 31, 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 December 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 66% of the project sold as on December 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-December 2023, the company achieved an average sales of ₹ 93.26 crore per month with collections of ₹ 78.18 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

Expected reduction in exposure to group entities

Exposure in the form of CG to group entities stood at ₹ 1,050 crore as on March 31, 2023 (₹ 605 crore to SBEL and ₹ 445 crore to RIL). SBEL (the group company) has now fully paid ₹ 1276.36 crore (including interest of ₹ 80.87 crore) worth of OTS repayment. REFL has made advances to various group entities and other corporates to the tune of ₹ 917.87 crore as on December 31, 2023, which is reduced from ₹ 1,261.87 crore as on March 31,2023.

For CG given to RIL, 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 to avail this as collateral. Thus, replacement of the existing properties of REFL seems achievable along with the release of CG.

Release of CG to SBEL leads to improvement in adjusted overall gearing to below unity. It shall further improve basis the release of CG given to Ramky Infrastructure Limited (RIL) and realization of advances given to various group entities and other corporates which would be 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 ₹ 4,337 crore (79%) as on December 31, 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 has received sanction of construction loan of ₹ 225 crore and raise ₹ 25 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 December 2023, REFL has incurred a cost of about ₹ 74 crore in the said commercial project through promoters' funds. This apart, the sale value of Genext Towers as on December 2023 is about ₹ 405 crore, which covers the entire balance 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. The committed receivables to the balance construction cost plus debt outstanding ration stands at 20.98%. 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 around 3.36 years (assuming past sales velocity) against the time remaining to completion of about 3.47 years, indicating moderate inventory levels. The capital structure is satisfactory, with the overall gearing at 0.04x as on March 31, 2023. REFL has made advances to various group entities and other corporates to the tune of ₹ 917.87 crore as on December 31, 2023, which is reduced from ₹ 1,261.87 crore as on March 31,2023 and with release of CG to SBEL leads to improvement in adjusted overall gearing to below unity. However, the release of CG given to SBI in favour of RIL and the realisation of advances extended is expected to be happen in FY24. REFL has already received about ₹344 crore in 9MFY24. 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

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Realty	Realty	Residential, Commercial Projects

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As on December 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 December 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 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: 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		-	-	February 2027	225.00	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 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*	225.00	CARE BBB; Stable	1)CARE BBB; Stable (05-Oct-23)	1)CARE BBB+; Stable (06-Jul-22)	-	-

*Long term

Annexure-3: Detailed explanation of 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

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

Annexure-6: List of all the entities consolidated

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

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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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