

Shubh Laxmi Enterprise

June 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	120.00	CARE BB+; Stable	Revised from CARE BB; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating assigned to Shubh Laxmi Enterprise (SLE) considers higher than envisaged bookings and sales realizations for the units in its ongoing real estate project – Surya Signature, along with receipt of sizeable customer advances, thus further reducing the funding risk for the project and aiding firm's liquidity profile.

Rating continues to be constrained on account of the completion risk associated with the project which witnessed cost over-run vis-a-vis the last review, saleability risk and SLE's constitution as a partnership entity. The rating is also constrained on account of cyclicalities along with other inherent risks associated with the real estate sector and the Ascon group's geographic concentration in and around Surat.

The rating, however, derives strength from the extensive experience of the promoters in the real estate sector and other industries, along with the established brand presence of the Ascon group in the real estate market of Surat.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Completion of the project within due timeline, sale of pending units as per envisaged price and realization of customer advances in time bound manner
- Expansion of project portfolio while maintaining committed receivables coverage ratio above 60%

Negative factors

- Delay in envisaged receipt of advances from already booked units or from future sale of units leading to cash flow mismatch and inadequate cushion for debt servicing
- Any major time or cost overruns vis-à-vis envisaged numbers

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes construction progress and customer advances will adhere to envisaged schedule and the entity will continue to benefit from the experience of its promoters in the real estate sector.

Detailed description of the key rating drivers:

Key weaknesses

Implementation risk associated with the ongoing debt-funded project – Surya Signature

SLE is developing a luxurious residential scheme, Surya Signature, in Vesu-Bhimrad, Surat. The project will consist of four- and five-BHK apartments across five towers, aggregating to a total of 180 units, along with various modern amenities. The project was launched in March 2020; however, construction commenced from April 2021 due to delay on account of the COVID-19 pandemic. The total cost of the project has been revised upwards to ₹279.83 crore (earlier ₹254.28 crore) on account of increase in input prices for construction activities, which will be funded through a term debt of ₹120 crore and the balance through a mix of the partners' capital and customer advances. Up to March 31, 2024, SLE has already incurred a total cost of ₹245.55 crore, which translates to roughly 88% of the total envisaged project cost. The remaining cost is expected to be incurred in line with the progress of the project, which is expected to be completed by FY25, reflecting a moderate project implementation risk.

That said, the project funding risk remains low. The total cost of ₹245.55 crore incurred as on March 31, 2024, has been funded by promoter contribution of around ₹63.46 crore, customer advances of around ₹101.59 (as against the initial estimate of ₹49.28 crore), term loan disbursement of ₹78.09 crore, and the balance through sundry creditors and other liabilities. Going forward, against the project cost of around ₹40 crore yet to be incurred, SLE has a pending term loan disbursement of around ₹42 crore, along with expected customer advances from booked units of around ₹35 crore and cash and advances of around ₹15 crore.

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

Saleability associated with the project, though better than envisaged booking status

As on March 31, 2024, SLE has received bookings for 63 units of the total 180 units in the project (around 35%). The said bookings are better than the bookings envisaged till FY24 during last review, with relatively higher sales realisations. However, with overall 65% of units yet to be booked, saleability risk persists.

As articulated by the management, SLE intends to receive bookings for only 2/3rd of the units by completion, and the balance will be put up for booking post completion to achieve better realisations.

Surya Signature being the largest project being developed by the group thus far, SLE's ability to sell the balance flats at envisaged rates and timely receive the customer advances will be a key monitorable.

Geographic concentration of the Ascon group

Since inception in the 1990s, the Ascon group's projects are geographically limited in and around only the Surat region. Apart from Surya Signature, the other ongoing projects of the group are also located in the Vesu region of Surat. Although the location of the Surya Signature project is favourable in terms of proximity to Surat Diamond Bourse, Surat airport, and other key urban centres of Surat, the geographical concentration exposes the firm and project to local risks.

Constitution as a partnership firm

SLE is a partnership firm, which restricts its financial flexibility with the possibility of withdrawal of capital by a partner from the firm. As on March 31, 2024, the partners have infused ₹63.46 crore for funding project cost. The resourcefulness of the promoters of SLE thus mitigates this risk to a certain extent.

Presence in a cyclical real estate sector

The real estate sector in India is highly fragmented with many regional players who have significant presence in their respective local markets, which, in turn, leads to intense competition within the industry. This sector is also sensitive to the macroeconomic cycles and interest rates. Any adverse movements in interest rates affect the real estate players in both ways – by hampering demand as well as by increasing the cost of construction.

Key strengths**Resourceful partners with longstanding experience in real estate and other industries**

Jaiprakash Aswani and Navin Aswani are the promoters of the Ascon Group of Developers and are partners of SLE. Jaiprakash Aswani has more than 25 years of experience in the real estate sector, whereas Navin Aswani's experience in real estate spans across 15 years. The promoters are ably supported by an experienced management team of inhouse experts, who oversee and manage various projects. Apart from real estate, the partners of SLE have experience in the manufacturing of construction materials and trading as well. The promoters have brought in adequate funds for project construction, indicating their resourcefulness.

Reputed brand name in the real estate market of Surat

The Ascon group is an established real estate group in Surat and has successfully completed 17 real estate projects in the residential and commercial segments, with a total 36.30 lakh square feet (lsf) of real estate developed in Surat, with experience of more than 25 years. All the ongoing projects of the group, including Surya Signature, are situated in prime locations of Surat.

Liquidity: Adequate

Construction funding is largely dependent upon customer advances and disbursement of the term loan. As on March 31, 2024, SLE has received customer advances of ₹101.59 crore against the initial estimate of ₹49.28 crore (and revised requirement of ₹74.83 crore owing to cost over-run) towards the funding of the project, while around ₹35 crore is pending to be received from the units booked, as against pending project cost of around Rs.40 crore.

Furthermore, sales velocity is expected to improve as and when the project progresses. Also, if need be, SLE has a cushion from the promoters' funding balance of around ₹22 crore, apart from pending term loan disbursements against the balance project cost.

It also has cash and bank balances to the tune of ₹5.86 crore as on March 31, 2024, apart from other current assets. Thus, the liquidity profile of the firm stands adequate.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Rating methodology for Real estate sector](#)

About the firm and industry

Industry classification

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

SLE is a partnership firm, constituted in September 2019, for the construction and development of real estate residential projects in Surat. The partners of the firm include Jaiprakash Aswani, Navin Aswani, Geeta Prints Limited, and Aswani Industries Limited. The firm is part of the Ascon Group of Developers, with Jaiprakash Aswani being the Founder-Promoter of the group. The group has completed 17 real estate projects in Surat and two projects are currently under development.

SLE is developing a luxurious four- and five-BHK real estate project along with modern amenities in the Vesu region of Surat, comprising of 180 units and a total built-up area of 878,282 square feet (sq ft). The project construction commenced in April 2021 and is expected to be completed by March 2025. The revised total cost of the project is envisaged at ₹279.83 crore (earlier ₹254.28 crore), to be funded through promoters' contribution, bank debt and customer advances in the ratio of 30:43:27.

Brief financials: Not applicable as it is a project phase entity.

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Term Loan-Long Term		-	-	March 2027	120.00	CARE BB+; 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 2024-2025	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
1	Term Loan-Long Term	LT	120.00	CARE BB+; Stable	-	1)CARE BB; Stable (28-Aug-23)	1)CARE BB; Stable (29-Jun-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short 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	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

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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