Rising Associates

January 22, 2021

Ratings

Type of Rating	Rating[1]	Rating Action
Issuer rating	CARE BBB (Is); Stable [Triple B (Issuer Rating); Outlook: Stable]	Assigned

Details of instruments/facilities in Annexure-1

**The Issuer rating would be subject to firm maintaining overall gearing not exceeding 0.75 times (overall gearing expected level as of March 31, 2022)*

Detailed Rationale & Key Rating Drivers

The issuer rating assigned to the firm derives strength from the rich experience and established track record of the promoters in the real estate business for around three decades and established brand image of Kohinoor Group in the affordable housing segment, satisfactory sales momentum coupled with sizeable registration quantum, low projection execution risk backed by overall execution in moderate to advanced stage and adequacy of committed receivables to cover the balance project cost, healthy cash realization to fund the project cost on the back of robust collection efficiency. Furthermore, the rating also factors in the debt free capital structure of the firm and the receipt of the approvals and clearance for the on-going projects.

The rating strengths are, however, constrained on account of high reliance on customer advances to fund the project, partnership constitution of the entity, geographical concentration in Pune region, subdued industry scenario due to COVID-19 outbreak and imposed lockdowns and inherent cyclical nature of the real estate industry.

Rating Sensitivities

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

- Significant advancement in execution of overall development portfolio without any time or cost overrun.
- Receipt of better than envisaged collections on account of improved sales momentum, coupled with improved profit levels.

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

- Any un-envisaged debt (bank borrowings) infusion leading to significant deterioration in company's credit profile and overall gearing deteriorating above 0.75x.
- Considerable decline in the operating cash flows of the firm on account of lower than envisaged sales momentum and collection efficiency.
- Significant expansion in the overall development portfolio resulting in weakening of operational metrics.
- Deterioration in the percentage of committed receivable to cover balance project cost to 70% or lower.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters along with long established track record in real estate industry

The Kohinoor group, based out of Pune, is a family driven business group, established by Mr. Krishna Kumar Goyal (aged 60+ years) in 1983, having experience and expertise of around three decades in real estate business. The group is currently mentored by him and is jointly spearheaded by second generation of Goyal family; Mr. Vineet Goyal (aged 39 years), who holds around 15 years of experience and looks after day to day affairs pertaining to sales & operation of the firm and Mr. Rajesh Goyal (aged 37 years), holding around 13 years of experience who looks after financial & other strategic matters of the firm in the capacity of partner. Furthermore, the daily end to end processes pertaining to the business are managed by CA Manoj Khandelwal, Group CFO, who holds 12 years of experience in the real estate business. The group is currently into development of real estate projects in residential, retail and commercial sectors and exhibits rich experience in development of real estate spaces across the Pune city. It has so far developed 4 million square feet (msf) of real estate space spanning across 30+ projects in various sectors of real estate and has currently around 3 msf of space under development in nine projects.

Satisfactory sales momentum coupled with high registrations and strong collection efficiency

Amongst the four ongoing projects in Rising Associates, the firm has aggregately launched around 643 commercial and

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

residential units for sale, out of which 465 units (72.32%) stands booked as on December 10, 2020 while 438 units (94.19% of total units sold) were registered as on said date thereby mitigating the risk of cancellation to large extent.
Albeit, the sales velocity was moderately impacted due to eruption of pandemic and resultant lockdowns in H1FY21, the firm has offloaded around 208 units over the past 14 months ended December 10, 2020, implying satisfactory sales momentum. At current sales momentum, months to sell the balance inventory works out at as low as 12 months. This apart, the firm has been able to maintain robust collection efficiency of around 84%.

Satisfactory project execution coupled with adequacy of committed receivables
As on December 31, 2020, for all the on-going projects under RA, the firm has incurred ~Rs.160.70 cr out of the total project cost of Rs.261.43 cr (that is ~61.47%) which demonstrates moderate stage of execution leading to low risk of execution of the projects. The firm's committed receivables covers more than 100% of the balance project cost thereby providing funding comfort to large extent.

Receipt of the approvals and clearance
The land cost for all the ongoing real estate projects has been fully incurred. The company has obtained all the necessary approvals such as location clearance, layout sanction, height clearance, fire department clearance, etc. for all the projects. Further all the projects are registered in RERA and have specific RERA numbers for each project. Such timely receipt of approvals mitigates the risk of delay in project execution and resultant cost overrun. There is an ongoing litigation on land ownership in one of the projects, Kohinoor Jeeva, however, no adverse material impact of the same is expected on the operational and financial profile of the firm.

Key Rating Weaknesses
Reliance on Customer advance to a large extent however adequate balance construction cost coverage ratio from sale leads to low funding risk
The development plans of the entity is primarily dependent on the customer advances as out of total project cost, nearly 73% of total cost is envisaged to be funded through customer advances. Any delay in the development or slowdown in sales velocity exposes the entity to funding risk and may elongate the construction timelines. Further, realization of milestone based payments along-with timely execution of projects remains crucial and key monitorable. However, strong coverage ratio and execution of most of the projects in advanced stage coupled with robust collection efficiency mitigates the funding risk to great extent. Further, the debt free status of entity places it in favorable position to avail external finance, if required. Yet, sustenance of such operational metrics remains crucial from credit perspective.

Partnership constitution of the entity
Rising associates is a partnership firm managed by Goyal family. Due to the constitution of the firm, it is exposed to the risk of withdrawal of capital by the partners. Any withdrawal having adverse impact on capital structure of the entity is a key rating sensitivity

Competition and Geographical concentration of projects
All the on-going projects are currently in the Pune region thus there is a geographic concentration. Any downturn in such markets will impact group's revenues going forward. Further, the project faces competition from nearby projects 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 Kohinoor Group, in its pipeline has few residential and commercial projects which would enhance the brand awareness and overall risk profile of the company.

Impact of COVID-19
As a result of pandemic induced lockdown, the operations of the firm remained substantially halted and disrupted for most of Q1FY21 on the back of labor shortage owing to reverse migration. However, as the economy unlocked, the firm witnessed rebound in its operational activities to certain extent and accordingly it witnessed average monthly sales of around 14 units. In Q3FY21, with arrival of festive season, the firm has witnessed satisfactory sales traction with 33 units being sold (as on December 10, 2020). Continuation of such momentum will remain crucial from credit perspective.

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 labors, lower GDP and macro-economic headwinds. However, despite the pandemic and the resultant economic slowdown, Pune's

real estate industry has seen healthy green shoots leading to better hopes for the players in the industry in the upcoming quarters. 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 majorly led to the bullish sales in the city.

Inherent cyclical nature of the industry
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. 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 the cash flow of the companies operating in the real estate sector.

Liquidity: Adequate
The liquidity of the company is adequate as reflected in uncollected receivables of Rs.143.23 crore and cash and bank balance of Rs.1.70 cr as on November 30, 2020 against no debt repayment obligations.

Analytical approach: Standalone

Applicable Criteria:
Issuer Rating
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
Rising Associates (RA) was incorporated on April 01, 2009 as a partnership firm (a special purpose vehicle) by the promoters of the Kohinoor Group of Pune. RA currently takes up construction and development of commercial, retail and residential real estate projects and is jointly spearheaded by second generation of Goyal family i.e Mr. Vineet Goyal and Mr Rajesh Goyal. The firm is currently executing four projects 'Kohinoor Sapphire' at Tathawade admeasuring 3.91 lsf, 'Kohinoor Jeeva' at Bibwewadi admeasuring 1.35 lsf, B Zone Baner at Baner admeasuring 0.55 lsf and B Zone Shivajinagar at Shivajinagar admeasuring 0.28 lsf in Pune.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	4.09	3.27
PBILDT	(1.60)	0.21
PAT	(1.70)	0.26
Overall gearing (times)	0.21	0.09
Interest coverage (times)	NM	7.94

A: Audited; 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE BBB (Is); 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.	Issuer Rating-Issuer Ratings	Issuer rating	0.00	CARE BBB (Is); Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not applicable
Annexure 4: Complexity level of various instruments rated for this company – Not applicable

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Name- Mr Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Ms Monika Goenka
Group Head Contact no- 020-40009019/8879300881
Group Head Email ID- Monika.goenka@careratings.com

Relationship Contact
Name: Mr Aakash Jain
Contact no. : 020 4000 9090
Email ID: aakash.jain@careratings.com

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