

India Build Property Developers Private Limited

September 25, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Non-Convertible Debentures	32.81 (reduced from 35.00)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Revised from CARE BB; Stable (Double B; Outlook: Stable)

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating of Non-Convertible debenture issue of Indiabuild Property Development P Ltd. (IBPD) takes into account significant decline in sales velocity in FY20 and 4MFY21 impacting the distributable reserves of the project and translating into lower return than the targeted IRR to the NCD investors. The revision in rating also factors in the company not having adequate cash flows to redeem the rated NCDs falling due on November 2, 2020 and it being in the process of seeking consent from majority of the investors to extend the redemption date by 6-8 months. Apart from these, the project also faces intense competition from various projects in the vicinity. However, on the positive side, the project construction is almost complete and the Occupancy Certificate is received by company in February 2020. The rating also draws strength from the promoters having significant experience in construction and real estate segment.

Rating Sensitivities

Positive Factors

- Significant improvement in sales velocity with sustained improvement in collections

Negative Factors

- Delay in extension of NCD redemption date

Detailed description of the key rating drivers

Key Rating Weaknesses

Significant decline in sales velocity and redemption of NCDs falling due soon:

Company's share of saleable area is 2.63 lsf of which 1.48 lsf is sold by Jun'20 i.e. 56.27% (PY: 54%) of the area is sold. However, the sales velocity has declined significantly in past 1-1.5 years. During FY20, the Company sold 0.23lsf of area as against 0.66lsf in FY19. During 4MFY21, company could sell 0.03lsf of area. The balance inventory was 1.15 lsf as on Jun 30, 2020 which is equivalent to high unsold inventory of 56 months.

Due to the project location (located in outskirts of Bengaluru) and Covid, the sales velocity has been relatively slower. Company expected the sales to pick up from post receipt of OC. Though OC was received in Feb'20 but due to Covid-19 outbreak, sales continued to remain low.

The company does not have adequate cash flows to redeem the NCDs falling due on November 2, 2020. The company is in the process of extending the redemption date by another 6-8 months and seeking consent from majority of the investors. Timely receipt of consent from investors to extend the redemption date is critical.

Inter corporate loans (ICDs) given:

As on March 31, 2020, ICDs of Rs. 6.80 crore were given by the company to its associate companies for meeting their working capital needs. The ICDs are expected to be paid back in the near term but would be contingent upon adequate liquidity in the projects undertaken by the associate companies.

Exposed to inherent risks and intense competition associated with the real estate industry:

The project is situated in Doddaballapur, Bengaluru and is exposed to risks associated with the real estate industry in the city. Furthermore, project faces competition from other plotted development projects in the vicinity like Century Eden, Golden Ira etc. Apart from these plotted development projects, other projects like Puravankara Welworth City and Century Wintersun are also located nearby.

Key Rating Strengths

Relatively low execution risk as the project is of plotted development in nature and is almost nearing completion:

The total cost of the project was estimated at Rs. 50.6 crore funded with debt of Rs.32.8 crore (From NCDs) and customer advances of Rs. 17.8 crore. As on Jun'20, company has balance construction cost of Rs. 1.90 crore to be spent against which it has receivables from sold units Rs. 14.7cr. With no interim interest and principal repayments, the Company has sufficient receivable cover to complete the balance project. The Company has incurred 89% of construction cost and has also received

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

OC in Feb'20. Balance work pertains to construction of club house and landscaping related works which is expected to be completed soon.

Promoter's significant experience in construction and real estate segment:

IBPD is part of India Build Real Estates Private Limited under which 2 projects are presently being developed under separate SPVs having common directors Mr. Pawan Sawhney and Mr. Santosh Kumar Soni. Mr. Pawan Sawhney is a B.Tech (IIT Mumbai), MBA (Oxford University), having more than 20 years of experience in real estate and is also a Partner in Piramal Fund (Earlier Known as IndiaREIT Fund). Mr. Santosh Kumar Soni has been involved in all transactions under various schemes of IndiaREIT Fund. He works in the capacity of Vice President with India REIT Fund Advisors Pvt Ltd and has been with the fund for more than 10 years.

Liquidity: Stretched

The Company's liquidity is largely supported by NCD transaction structure under which there are no interim interest or principal payments. However, due to the project location and COVID, the sales velocity has been relatively slower. The company does not have adequate cash flows to redeem the NCDs falling due in Nov'20 owing to mismatch in sales realization and maturity date of payments. The company is in the process of extending the redemption date by another 6-8 months.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's Rating Methodology on Real Estate](#)

About the Company

India Build Property Developers Pvt Ltd (IBPD) is a special purpose vehicle (SPV) under the India Build Real Estates Pvt. Ltd. (IBRE), a development initiative undertaken by Piramal Fund Management Private Limited which is wholly owned by Piramal Group. Under Domestic Real Estate Strategy-I scheme of the Fund, IBPD was incorporated for undertaking plotted development project on Doddaballapura Road, Bengaluru.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	14.97	15.58
PBILDT	-5.17	-2.13
PAT	-5.34	-2.34
Overall gearing (times)	NM	NM
Interest coverage (times)	NM	NM

A: Audited, NM: Not Meaningful

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
Debentures-Non Convertible Debentures	INE510Y07017	November 02, 2017	No pre-defined coupon rate. Returns generated solely from surplus cash flows, will be distributed subject to cap of IRR of 22.8%.	02-Nov-2020	32.81	CARE B+; 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.	Debentures-Non Convertible Debentures	LT	32.81	CARE B+; Stable	-	1)CARE BB; Stable (03-Oct-19)	1)CARE BB; Stable (27-Sep-18)	1)CARE BB; Stable (23-Nov-17) 2)Provisional CARE BB; Stable (21-Sep-17)

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
Repayment terms and Maturity	Instrument at the end of tenure (3 years) shall be redeemed at par along with returns generated solely from surplus cash flows, will be distributed subject to cap of IRR of 22.8%.
B. Non-financial covenants	
Security	First charge by way of registered mortgage of the mortgaged property. Provided that as and when Construction Finance (CF) lender comes, the first charge will be ceded to the CF lender. First charge by way of hypothecation of receivables from the mortgaged property. Provided that as and when CF lender comes, the first charge will be ceded to the CF lender
Distribution Waterfall	The surplus cash flows (after all project related costs including construction, interest cost of CF loan approvals, development fees) from the project, shall be distributed at the end of tenure, subject to cap of IRR of 22.8%, being the target IRR.
Call option	Exercisable on or after 2 years from the final draw down at 22.8% IRR.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple

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.

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About CARE Ratings:

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