

## Ireo Grace Realtech Private Limited

January 16, 2018

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	497.50	<b>CARE BBB-; Negative (Triple B Minus, Outlook: Negative)</b>	Reaffirmed
<b>Total Facilities</b>	<b>497.50 (Rupees Four Hundred Ninety Seven crore and Fifty lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Ireo Grace Realtech Private Limited (IGRPL) continue to derive strength from experienced promoters and management team, established track record in executing real estate projects and locational advantage of the project.

The rating however, continues to remain constrained on account of continuous slowdown in the booking status along with the falling realizations, high dependence on customer advances, project execution risk with increase in project cost and subdued outlook of real estate industry.

Going forward, the ability of the company to implement the project without any further cost and time overrun and generate envisaged revenue remains the key rating sensitivities.

### Outlook: Negative

The outlook is 'Negative' on the back of subdued demand in the real estate sector specifically in Gurgaon (Haryana) region which may further adversely impact the collections and future sales of the company. The outlook may be revised to 'Stable' in case of a significant pickup in future sales of the company.

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### Experienced promoters and management team

IGRPL is promoted by IREO, a private equity fund with assets of ~USD 1.7 billion invested in India. IGRPL is managed by professionals with experience in the real estate industry. The overall operations of the company are managed by team of professionals which includes Mr. Anupam Nagalia (Chief Operating Officer), who is a qualified Chartered Accountant and Company Secretary. Before joining IGRPL, he has worked with Vatika Group. Mr. Jai Bharat Aggarwal (Director Finance) is responsible for making financial decisions for the company. IREO group has established its track-record of delivery with completion of two group housing projects in group company Ireo Private Limited having more than 27.59 lakh square feet (lsf) of saleable area in Gurgaon region. Furthermore, IREO Group has also handed over 22 villas, 17 floors and 205 plots in township project at Ludhiana developed under group company Ireo Waterfront Private Limited and handed over 200 plots in Mohali developed under group company Puma Realtors Private Limited.

#### Location of the project

The project 'The Corridors' is located at the Golf Course Extension Road (GCER) in Gurgaon, an upcoming area with lots of other projects in the near vicinity. GCER offer good connectivity to the key hubs of Gurgaon through Golf Course Road (GCR) and NCR vide National Highway 8. The location also derives advantage from close proximity to commercial hubs in Gurgaon. IREO is also developing 3 other projects in the Golf Course Extension road area. Apart from this several other prominent builders are having their residential projects within the radius of 5 Km from the project location of IGRPL.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Key Rating Weaknesses*****Slowdown in booking status***

The Ph-1 of the project “The Corridors” was launched in Q4FY13. Till October 31, 2017, IGRPL has sold 11.96 Isf (*area where the company is receiving regular installments*) in Ph-1 i.e. 52.16% of the total salable area. On account of subdued industry scenario, the sales momentum has been slow and IGRPL has sold only 6 units in 9 months ended October 31, 2017. Further, in the past, there have also been cancellations in the project which has led to the decline in sold area from 19.47 Isf in Jan-2015 to 11.96 Isf as on Oct-2017.

**Project execution risk**

IGRPL has revised its construction plan and has decided to execute the project in a phased manner. While the Phase 1 of the project is at advanced stage of execution; only basement work is completed in Ph-2. The company would be developing Ph-2 once Ph-1 is successfully completed and delivered.

The company has revised the total project cost which is now being envisaged at Rs.1,572 crore as against Rs.1,419 crore envisaged earlier. The revision in the cost is mainly on account of increased interest expenses. Earlier IGRPL had planned to fund the project ‘The Corridor Phase-1’ with a debt of Rs.350 crore; however, IGRPL now has revised the funding pattern with project to be funded by a debt of Rs.450 crore. As on Oct 31, 2017, balance cost of Rs.512 crore is yet to be incurred with project execution primarily dependent upon the recovery from the existing sales and debt to be availed in the coming quarters.

IGRPL has also revised the envisaged overall revenue from the project to Rs.2,090 crore as against Rs.2,364 crore envisaged earlier on account of falling realizations with the slowdown in the real estate market. Nevertheless, given the past experience in project execution and professional management team, the execution risk is mitigated to certain extent.

**Excessive dependence on customer advances**

IGRPL has revised its funding pattern as per which the total cost of Ph-1 of the project is proposed to be funded through debt of Rs.450 crore and customer advances of Rs.1,122 crore as against Rs.350 crore of debt and Rs.1,069 crore of customer advances as envisaged earlier. IGRPL has projected to fund 71.37% of the total project cost by utilizing proceeds from the customer advances. Excessive dependence on customer advances for project execution might impact the schedule of the project if the advances are not timely received. Further, the dependence on the customer advances has been accentuated as the company also had to write off a security deposit of Rs.68.05 crore which was given to one of its group companies- Ireo Fiveriver Private Limited (IFPL) for development of a group housing project. As the financial profile of IFPL remains weak, the company has entered into a settlement agreement with IFPL where out of total security deposit of Rs.83.05 crore, Rs.15 crore has been treated as recoverable and balance amount of Rs.68.05 crore has been written off. The company also has an outstanding amount of Rs.81.13 crore (*Rs.51.02 crore outstanding in ‘The Corridors’ project*) on govt. dues which primarily pertain to EDC/IDC payments. The company has although already applied under the EDC relief policy of Haryana Government and also got the approval in Aug-2017, but the payments are yet to start as the company has represented with the government on the payment schedule.

**Subdued industry scenario**

The real estate sector is moving towards a more rational regime where developers, having learnt from their mistakes, now focus on project execution and delivery. The real estate market in Delhi-NCR has seen slow-down in the sales in past few quarters. Competitive pricing, increased transparency, speedy approvals process, clear land titles, improved delivery and project execution are expected to support growth of the real estate sector. While the sector continues to remain troubled with issues of high unsold inventory, delayed delivery of projects and financial stress on developers, the only segment that showed some signs of a rebound was the affordable housing category in the peripheries of the major markets. The broader market opinion is that while the long term story for residential market remains strong; the short term is expected to be sluggish.

**Analytical approach:** Standalone

**Applicable Criteria**

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

[CARE's Policy on Default Recognition](#)
[Financial ratios – Non-Financial Sector](#)
**About the Company**

Incorporated in 2010, Ireo Grace Realtech Private Limited (IGRPL) is part of the IREO group, a real estate private equity fund with investable assets of ~USD 1.7 billion. Presently, IGRPL is developing a residential group housing project in Gurgaon under the name of 'IREO The Corridors'. IGRPL has accumulated land bank in Gurgaon region and proposes to launch more projects going forward. Presently, IGRPL has launched one GH housing project (The Corridors) on a land area of 37.5 acres comprising of 2,009 units.

Brief Financials (Rs. crore)	FY16(A)	FY17 (A)
Total operating income	1.73	409.92
PBILDT	(101.19)	119.75
PAT	(12.05)	23.80
Overall gearing (times)	0.81	0.75
Interest coverage (times)	0.58	3.64

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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
Fund-based - LT-Term Loan	-	-	Oct-22	450.00	CARE BBB-; Negative
Non-fund-based - LT-Bank Guarantees	-	-	-	47.50	CARE BBB-; Negative

**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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (21-Mar-16)	1)CARE A3+ (11-Mar-15) 2)CARE A3+ (22-Apr-14)
2.	Fund-based - LT-Term Loan	LT	450.00	CARE BBB-; Negative	1)CARE BBB-; Negative (12-Jul-17)	1)CARE BBB-; Negative (24-Jan-17)	1)CARE BBB (21-Mar-16)	1)CARE BBB (11-Mar-15) 2)CARE BBB (22-Apr-14)
3.	Non-fund-based - LT-Bank Guarantees	LT	47.50	CARE BBB-; Negative	-	-	-	-

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