

Ireo Grace Realtech Private Limited

July 04, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	497.50	CARE BB; Negative (Double B, Outlook: Negative)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)
Total Facilities	497.50 (Rupees Four Hundred Ninety Seven crore and Fifty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Ireo Grace Realtech Private Limited (IGRPL) factors in the continuous slowdown in its sales momentum along with the falling realizations. The rating continues to be constrained by the high dependence on customer advances, project execution risk with increase in project cost and subdued outlook of real estate industry. The rating also takes cognizance of criminal case filed against the company in India besides the arbitration under process in New York and Mauritius.

The rating, however, continues to derive strength from experienced promoters and management team, established track record in executing real estate projects and locational advantage of the project.

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

Outlook: Negative

The outlook is 'Negative' on the back of subdued demand in the real estate sector specifically in Gurugram (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 Weaknesses

Slowdown in sales momentum

The Ph-1 of the project "The Corridors" was launched in Q4FY13. Till October 31, 2017, IGRPL had 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. There has been no fresh units sold since then, however out of the customers who were irregular in their payment, 25 customers have regularized their payments expanding the regular customer base to 736 customers.

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. 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.

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

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. 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. As on March 31, 2017, 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, however the revised payment schedule has yet not been approved and received by the company. In case the same is not approved, IGRPL may have to pay the EDC/IDC in lumpsum along with interest which may further strain the liquidity profile of the company.

Arbitration Proceedings

A criminal case has been filed in India besides arbitration proceedings in New York and Mauritius with respect of siphoning of funds by Ireo's top management. The matter is currently subjudice and the company has denied any wrong doing in this regard in their reply to the Economic Offences Wing. Any adverse outcome of the same will further weaken the credit profile of the company.

Subdued industry scenario

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.

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.

Analytical approach: Standalone

Applicable Criteria

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

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

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

[Rating Methodology: Factoring Linkages in Ratings](#)

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

Name: Mr. Gaurav Dixit

Tel: 011- 45333235

Email: gaurav.dixit@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 BB; Negative
Non-fund-based - LT-Bank Guarantees	-	-	-	47.50	CARE BB; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - ST-Term loan	ST	-	-	-	-	-	1)Withdrawn (21-Mar-16)
2.	Fund-based - LT-Term Loan	LT	450.00	CARE BB; Negative	-	1)CARE BBB-; Negative (16-Jan-18) 2)CARE BBB-; Negative (12-Jul-17)	1)CARE BBB-; Negative (24-Jan-17)	1)CARE BBB (21-Mar-16)
3.	Non-fund-based - LT-Bank Guarantees	LT	47.50	CARE BB; Negative	-	1)CARE BBB-; Negative (16-Jan-18)	-	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

JAIPUR

Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691