

N Rose Developers Pvt. Ltd.

April 01, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Bank Facilities – Fund based – LT –Term Loan	120.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Re-affirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The re-affirmation in the ratings assigned to the bank facilities of N Rose Developers Pvt. Ltd. takes into account improvement in the financial risk profile, and decline in the approval and execution risk with the ongoing projects nearing completion. The abovementioned improvements were in line with CARE's expectations. The rating also factors in favorable location of the project and vast experience of the promoters in the real estate business, and adequate liquidity position. The above rating strengths are, however, tempered by small scale of operations and geographically concentrated revenues, and cyclical nature of real estate industry.

Rating Sensitivities

Positive rating sensitivities:

- Increase in scale of operations and Diversification in revenues without negatively affecting the financial risk profile of the entity

Negative rating sensitivities:

- Decline in tied-up receivables to outstanding debt and pending construction cost below 50%.
- Decline in area sold to area launched for sales below 35%

Detailed description of the key rating drivers

Key Rating Strengths

Well experienced promoters and management team

NRDPL is promoted by Mr. Narayan Anand Shelar, Mr. Natwarlal Purohit and Mr. Hiren Ashar and their respective families. Mr Shelar is a civil engineer and has been in the construction and hotel industry for more than 25 years. Mr Purohit is a science graduate and has been in the construction industry for more than 20 years. Mr Ashar is a commerce graduate with an experience of more than 20 years in the real estate industry. The promoter along with the directors and family members form the core management team of NRDPL. All of them are well versed with the nuances of the real estate industry and also have expertise in generating Transferable Development Rights (TDR). Further, since most of the earlier successfully launched projects executed by NRDPL were in the Borivali-Dahisar belt, the builders have a reputation in this location and its vicinity.

Favourable location of the Project

The Project is located at Dahisar (East) which is the northernmost suburb of Mumbai. The surrounding area is primarily residential with few commercial spaces and retail shops. The project location is well connected by road to other parts of the city through Western Express Highway and SV Road. It is also very close to Dahisar suburban railway station. The proposed Mumbai Metro Line from Andheri to Dahisar shall further improve the connectivity once it is implemented. The construction work for the proposed metro has also commenced. The residential real estate market in Dahisar has grown considerably over the years as it is one of the most favoured locations for people who do not prefer the busy, crowded places in the city and incur high cost of living.

Decline in approval and execution risk with the ongoing projects nearing completion

NRDPL currently has two ongoing projects namely "Heaven Plaza (HP)" and "Northern Height (NH)". The company has already received occupancy certificate for its "Heaven Plaza" project. Moreover, the company has complete commencement certificate in place for completing its "Northern Height" project. Hence, the project approval risk has declined as compared to the last year.

Moreover, till January 31, 2020 the company had already incurred 87.71% of the budgeted project cost towards the projects. In terms of construction progress the company's NH project's construction work has reached till 31 and 38 floors (out of total

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

42 floors) and finishing work has been going on concurrently with the structure work. This has resulted in decline in the project execution risk for the company.

However, the company is yet to execute Phase-2 of the project. As per the management, the company is expected to enter into agreement with a reputed developer wherein the execution portion of the project will be handled by the developer and NRDPL will be responsible for obtaining the requisite approvals. Any significant change in the plans of the company in this regard remains a key rating monitorable.

Improvement in the financial risk profile

The company has already sold ~80.21% of the planned saleable area of the ongoing project. This has also resulted in improvement in the tied up receivable to outstanding debt plus pending project cost to 105.83%. Hence, the tied-up receivables are sufficient to meet the pending construction cost and debt obligations.

Key Rating weaknesses:

Small scale of operations and geographically concentrated revenues

The company's scale of operations continues to be small with tangible network of Rs.16.45 crore (excluding Redeemable Preference shares and Unsecured loans). Owing to its small scale of operations and real estate nature of industry, the company's credit profile remains vulnerable to project risk as addition of a single project may result in significant change in the company's business risk. Moreover, NRDPL's area of operations is concentrated in Mumbai suburb, resulting in significant geographical concentration. Any downturn in these micro markets may impact the cash flows adversely.

Cyclical nature of real estate industry

Real estate sector demand is linked to the overall economic prospect of the country. Change in the economic outlook affects the expected cash inflows to a household thereby also influencing their buying decision. Besides, as leverage forms an important part of funding for the buyer, availability of loan and interest rates also affects the demand of real estate properties. On the other hand, labour, cement and metal prices being some of major cost centres for the sector, availability of these factors plays important role in pricing and supply of new units. Hence, cyclicity associated with economic outlook, interest rates, metal prices etc. also renders the real estate sector towards cyclicity. Moreover, the companies in the sector are also exposed to regulatory changes, especially in the countries such as India with evolving regulations.

Adequate liquidity position

As on January 31, 2020 the company's cash and bank balance was Rs.7.15 crore (including DSRA amounting to ~Rs.4.5 crore which covers three months of instalments). Moreover, the company's tied-up receivables are sufficient to meet its pending construction cost and outstanding debt repayments. As receipt of tied-up receivables are linked with that of the construction progress, the company's liquidity position may be considered as adequate.

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 – Real Estate Sector](#)

About the Company

N. Rose Developers Private Ltd. (NRDPL) is a Mumbai based real estate developer which was established in the year 2004 by Mr Narayan Anand Shelar, Mr Natwarlal Purohit and Mr Hiren Ashar. NRDPL has been primarily focusing on redevelopment and SRA residential projects in and around Mumbai. NRDPL is currently developing residential projects in a total plot area of over 4 lakh ft² at Dahisar, East in Mumbai.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	12.07	23.23
PBILD	17.85	13.77
PAT	0.50	1.45
Overall gearing (times)	9.87	10.56

Interest coverage (times)	1.08	1.21
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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

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	-	-	September 2022	120.00	CARE BBB-; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	120.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (13-Feb-19)	1)CARE BB+; Stable (31-Jan-18)	-
2.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	1)Withdrawn (13-Feb-19)	1)CARE BB+; Stable (31-Jan-18)	-

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

A. Financial Covenants	
1. Maintenance of DSRA	DSRA equivalent of 3 months interest to be created immediately and DSRA of 3 months installments to be built up before full disbursement during moratorium period and before commencement of repayment from credit in ESCROW account/sales realization.
2. Maintenance of ratios	Interest coverage ratio to be maintained above 2 and FACR to be maintained above 125%.
B. Non-financial Covenants	
1. Subordination of unsecured loans	Unsecured loans of minimum Rs.67.82 crore to be subordinated and not to be withdrawn during the currency of loan.
2. Disbursement	Disbursement of the loan is to be linked with construction progress and as specified in the drawdown schedule.
3. Insurance	Contractors all risk insurance should be taken by the borrower with banks name in the policy for the project being funded by the lender. Insurance cover should be obtained from the company approved by the lender.

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.

Contact us

Media Contact

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

Analyst Contact

Group Head Name - Vikash Agarwal
Group Head Contact no.- 022-68374427
Group Head Email ID- vikash.agarwal@careratings.com

Relationship Contact

Name: Saikat Roy
Contact no. : 022 6754 3404
Email ID : saikat.roy@careratings.com

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