N Rose Developers Pvt. Ltd.

May 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Bank Facilites – Fund based – LT –Term Loan	120.00	**CARE BBB-; Under Credit watch with Negative implications (Triple B Minus; Under Credit watch with Negative implications)**	Placed under credit watch with negative implication

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings on long term bank facilities of N Rose Developers Private Ltd. (NRDPL) under 'Credit watch with negative implications' on account of disruption in operation due to ongoing lockdown imposed by the central government towards containment of COVID-19. This has resulted in the disruption in operational activities i.e. stoppage of the construction activities coupled with diminished sales and collection activities which is expected to impact the cash flows of the company adversely. In the near term, the company has scheduled principal repayment commencement from June 2020 for which the company is seeking deferment of the same. CARE shall continue to closely monitor the situation and timely deferment of the scheduled principal repayment may result in easing the liquidity position of the company which otherwise shall create short term liquidity mismatch for the company and therefore shall remain crucial and key rating monitorable.

The company has availed moratorium for its interest payments during March-May 2020 period, the same will be accumulated and shall be repaid along with the Principal redemption starting from June 2020. While the central government's lockdown is applicable till May 17, 2020, clarity is yet to emerge on possible extension or staggered exit from the lockdown, which in turn will be contingent on the extent of spread of COVID-19. Thus, the business risk profile of the companies in the sector will remain under pressure even after commencement of operations due to slow recovery in the real estate sector. CARE will continue to monitor the situation and possible impact on the risk profile of the companies in the sector.

The reaffirmation 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 rating also factors in favorable location of the project and vast experience of the promoters in the real estate business.

The above rating strengths are, however, tempered by small scale of operations and geographically concentrated revenues, cyclical nature of real estate industry, and stretched liquidity position due to temporary mismatch in cash flows.

Rating Sensitivities

Positive rating sensitivities:

- Increase in scale of operations and Diversification in revenues without negatively effecting 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%.
- Extended lockdown or slower than anticipated ramp-up in collections post resumption of operations, resulting in further moderation in company's financial risk profile. Besides, higher than anticipated debt and reduction in liquidity buffer may adversely impact the rating.

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.

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

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 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 networth 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 land, 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, cyclicality associated with economic outlook, interest rates, metal prices etc. also renders the real estate sector towards cyclicality. Moreover, the companies in the sector are also exposed to regulatory changes, especially in the countries such as India with evolving regulations.

Stretched liquidity position
As on March 31, 2020 the company had cash and bank balance of Rs.8.28 crore (including DSRA). However, stoppage of construction has impacted the company’s construction linked cash flows. Hence, although the company has tied-up receivables are sufficient to meet its pending construction cost and outstanding debt, stoppage of construction activity coupled with diminished sales and collection activities which is expected to impact the cash flows of the company adversely. Further, although the company has availed moratorium for its interest payments during March-May 2020 period, the same will be accumulated and shall be repaid along with the Principal redemption starting from June 2020. This has resulted in short term mismatch in the company’s cash flow resulting into stretched liquidity position for the company. However, as per the management, the company is in the process of seeking deferment of principal repayment, which if approved by the lender shall ease the liquidty position of the company. Therefore, CARE shall CARE shall continue to closely monitor the situation and timely deferment is crucial and therefore shall remain crucial and key rating monitorable.

Analytical approach: Standalone.

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial ratios - Non-Financial sectorC]
[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 ft^2 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
PBILDT	17.85	13.77
PAT	0.50	1.45
Overall gearing (times)	9.87	10.56
Interest coverage (times)	1.08	1.21

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- (Under Credit watch with Negative Implications)

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.	Fund-based - LT-Term Loan	LT	120.00	CARE BBB- (Under Credit watch with Negative Implications)	1)CARE BBB-; Stable (01-Apr-20)	-	1)CARE BBB-; Stable (13-Feb-19)	1)CARE BB+; Stable (31-Jan-18)
2.	Non-fund-based - LT-	LT	-	-	-	-	1)Withdrawn	1)CARE

	Bank Guarantees						(13-Feb-19)	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

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 the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. 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. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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