

## Sunteck Realty Limited (SRL)

April 5, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities – Term Loan	524.00 (enhanced from 446.00)	<b>CARE AA-; Stable</b> <b>(Double A Minus; Outlook: Stable)</b>	<b>Reaffirmed</b>
Long term Bank Facilities – Fund based	533.00 (enhanced from 501.00)	<b>CARE AA-; Stable</b> <b>(Double A Minus; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short term Bank Facilities – Non-Fund based	10.00	<b>CARE A1+</b> <b>(A One Plus)</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>1067.00</b> <b>(Rs. One thousand and sixty seven crore only)</b>		
Commercial Paper issue#	<b>100.00</b> <b>(Rs. One hundred crore only)</b>	<b>CARE A1+</b> <b>(A One Plus)</b>	<b>Reaffirmed</b>
Proposed Non-Convertible Debenture issue	-	-	<b>Withdrawn*</b>
Non-Convertible Debenture issue	<b>20.00</b> <b>(Rs. Thirty crore only)</b>	<b>CARE AA-; Stable</b> <b>[Double A Minus; Outlook Stable]</b>	<b>Reaffirmed</b>

*Details of facilities/instruments in Annexure-1*

*# Based on the undertaking from the company that overdraft/line of credit to remain unutilized to the extent of outstanding commercial paper at any point of time*

*\* SRL has not raised the aforementioned Proposed Non-Convertible Debentures*

### Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities and instruments of Sunteck Realty Limited (SRL) continues to derive strength from the promoters' experience, successful execution track record, healthy bookings in ongoing projects, reputed brand in the Mumbai Metropolitan Region (MMR), Joint Venture (JV)/ Joint Development Agreement (JDA) model leading to an asset light model, improving sales volumes and operational cash flows in the past quarters, despite challenging industry environment. The rating also takes into consideration the management's undertaking to ensure that the net debt to equity does not exceed 0.25x and that the company would not resort to any inventory based financing with any guaranteed returns and would not have any committed outflows to landowners under the JDA other than those linked to sales.

Nevertheless, the above strengths are tempered by aggressive development plans, reliance on super-luxury BKC projects, moderate approval risk and susceptibility of product-mix to economic downturn and inherent cyclical nature of the real estate industry.

The ability of SRL to execute its projects in a timely manner without any time and cost overruns, increase in new sales momentum of both, completed and on-going projects along with timely collection from sold inventory are the key rating sensitivities.

### Detailed description of the key rating drivers:

#### Key Rating Strengths

**Experienced promoters supported by a strong management team:** SRL is led by Mr. Kamal Khetan (Chairman and MD), an engineer in Electronics and Communications from Mangalore University and a first-generation promoter. Mr. Khetan is involved in the formulation of corporate strategy and acquisition, while providing guidance on execution and

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

diversification plans of the company. Mr. Khetan is assisted by well-qualified and experienced management team who has rich experience in the real estate business.

**JV/JDA model leading to low cost of land & huge land bank available for development:** SRL has acquired land periodically through government tenders (closed), joint development and outright purchase from private corporates, resulting into getting land parcels with clear titles. During FY18, SRL entered into a JDA by paying Rs. 50 crore upfront through internal accruals to develop around 150 acre land parcel in Naigaon in Mumbai's extended Western suburbs with sales potential of approx. 120 lsf. Majority of the projects of SRL is under JV/JDA model. As per management, there is no/will not be any outgo to JDA partner which is not linked to revenue or sales of property under JDA.

**Successful track record of project management and execution:** SRL has completed 8 projects estimated to be around Rs. 5,800 crore in sales value covering approximately 20 lsf as of Dec 31, 2018. The group is executing 9 ongoing projects with a total development potential of 144 lsf (including Naigaon project of around 120 lsf) and has 10 planned and upcoming projects with a total area of ~184 lsf.

**Comfortable financial profile:** SRL has comfortable capital structure as compared to the real estate sector in general, where there is more reliance on debt. SRL's strategy of acquiring land for projects with a medium term development plan coupled with acquisition through JV's/ JDA's lends comfort as capital is not kept blocked in land. Overall gearing ratio has improved at 0.20x as on September 30, 2018 from 0.57x as on September 30, 2017 (0.21x as on March 31, 2018) due increase in equity following QIP (Rs.500 crore) and preferential issue (Rs.151 crore) to promoter group. Going forward, as per the management, the net debt to equity ratio is expected not to exceed 0.25x. SRL would not resort to any inventory based financing with any guaranteed returns.

**Strong cash flow visibility from its launched projects:** As on Dec 31, 2018, the company has sold around 36 lsf (Dec 31, 2017: 24 lsf) of the total development potential of about 164 lsf (including 120 lsf of affordable housing project) of the completed and ongoing projects. Customer receivable of around Rs.1,330 cr (from completed projects: Rs.450 cr and ongoing projects: Rs.880 cr) cover close to 40% (Dec 31, 2017: 69%) of the balance project cost of ongoing projects (Rs.2785 crore) and total debt (Rs. 533 crore assuming unsecured loan of Rs.57 crore) as on December 31, 2018.

The sales momentum has improved due to launch of the affordable project at Naigaon. SRL registered healthy collection from BKC projects and Goregaon projects. During the four quarters ended Dec'18, the collection stood at Rs. 608 crore. Going forward BKC, Goregaon projects and Naigaon project would contribute majority of sales and collections over FY19-FY24. Furthermore, lease rental revenue is also likely to increase the cash flows of the company.

#### Key Rating Weaknesses

**Aggressive development plans going forward:** The scale of operations of SRL is set to increase substantially from 9 ongoing projects of 144 lsf to 19 projects (ongoing, upcoming and planned) with development potential of ~328 lsf (including affordable housing of 120 lsf to be developed in phases by FY26) to be executed over a period of next 6-8 years. However, most of these projects will be majorly funded through internal cash accruals in a phased manner.

**Moderate approval risk:** SRL has a portfolio of projects which are in different stages of construction. While the approval risk for the upcoming projects shall continue to remain high, the risk associated with completed and ongoing projects is fairly low.

**Product-mix susceptible to downturn:** Offerings of SRL in residential segment are mainly premium/ ultra-premium residential projects. Both these segments i.e. premium/ ultra-premium residential and commercial are susceptible to macro-economic downturn, which may affect sales and thereby expected income from sale of unsold inventory may be lower than projected.. SRL's foray into affordable housing and commercial properties would mitigate the impact of slowdown in real estate industry.

**Cyclicality in the Real Estate Industry:** With the ongoing economic conditions, the real estate industry is facing issues on many fronts. These include subdued demand, curtailed funding options, rising costs, restricted supply due to delays in approvals, government policies, etc. thereby resulting in stress on cash flows. Further, the real estate industry is highly cyclical in nature and has seen low demand for quite some time now primarily due to factors like inflationary

pressures due to implementation of GST and sustained moderate inflation which apart from keeping interest rates high, has adversely impacted the buying power and affordability for the consumers.

#### Liquidity

SRL has considerable financial flexibility on account of low utilization of its sanctioned overdraft/line of credit facilities of Rs. 450 crore thereby providing sufficient liquidity cushion. The company had free cash/bank balance of Rs. 98 crore as on September 30, 2018.

**Analytical approach:** While assessing the risk profile of the company, CARE has considered the consolidated financials of Sunteck Realty Ltd (SRL) since most of the projects of the company are either through subsidiaries and joint ventures. The entities consolidated are given in Annexure 3.

#### Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Financial ratios - Non-Financial sector](#)

[Factoring Linkages in Ratings](#)

#### About the Company

Sunteck Realty Limited (SRL), the erstwhile Insul Electronics Private Limited was changed to Sunteck Realty & Infrastructure Limited which was further changed to SRL in 2007. The company is listed on BSE as well as NSE. SRL is engaged in the development of residential and commercial properties. The company undertakes its projects primarily under JV's and JDA's with landowners. SRL's developmental activities mainly cover Mumbai Metropolitan Region, apart with some exposure in Tier-II cities such as Jaipur, Nagpur and Goa. SRL undertakes and markets its real estate properties under the following five brands i.e.,

- (a) 'Signature'- Uber luxury residences,
- (b) 'Signia' - Ultra luxury residences
- (c) 'Sunteck' - for the commercial and retail developments
- (d) 'Sunteck City' – premium luxury residences aimed at high to mid income segment.
- (e) 'Sunteck World' – affordable residence for mid income to lower mid segment

Brief Financials Consolidated (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	955.01	891.02
PBILD	408.33	429.92
PAT	216.14	223.99
Overall gearing (times)	0.51	0.21
<b>Adjusted Overall Gearing<sup>^</sup></b>	<b>0.96</b>	<b>0.31</b>
Interest coverage (times)	4.10	4.42

A: Audited

<sup>^</sup> Adjusted overall gearing is calculated by reducing capital reserve generated on acquisition of subsidiary during FY15.

**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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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	-	-	April 23	524.00	CARE AA-; Stable
Fund-based - LT-Bank Overdraft	-	-	-	533.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	10.00	CARE A1+
Debentures-Non Convertible Debentures	January 12, 2016	11.75%	January 13, 2020	20.00	CARE AA-; Stable
Debentures-Non Convertible Debentures	-	-	-	0.00	Withdrawn
Commercial Paper	-	-	-	100.00	CARE A1+

#### 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.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (21-Mar-17)	1)CARE A+ (13-Oct-15)
2.	Fund-based - LT-Term Loan	LT	524.00	CARE AA-; Stable	1)CARE AA-; Stable (15-Jun-18) 2)CARE AA-; Stable (01-Jun-18) 3)CARE AA-; Stable (05-Apr-18)	1)CARE A+; Stable (12-May-17)	-	-
3.	Debentures-Non Convertible Debentures	LT	20.00	CARE AA-; Stable	1)CARE AA-; Stable	1)CARE A+; Stable	-	-

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
				Stable	(15-Jun-18) 2)CARE AA-; Stable (01-Jun-18) 3)CARE AA-; Stable (05-Apr-18)	(12-May-17)		
4.	Fund-based - LT-Bank Overdraft	LT	533.00	CARE AA-; Stable	1)CARE AA-; Stable (15-Jun-18) 2)CARE AA-; Stable (01-Jun-18)	-	-	-
5.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	1)CARE A1+ (15-Jun-18) 2)CARE A1+ (01-Jun-18)	-	-	-
6.	Commercial Paper	ST	100.00	CARE A1+	1)CARE A1+ (15-Jun-18)	-	-	-
7.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	-

**Annexure-3: Names of the companies consolidated with SRL as on March 31, 2018**

Sr. No.	Subsidiaries
1	Advaith Infraprojects Private Limited
2	Amenity Software Private Limited
3	Celina Buildcon and Infra Private Limited (for the period from 20th February, 2017 to 27th March, 2017)
4	Clarissa Facility Management LLP
5	Eleanor Lifespaces Private Limited (upto 17th June, 2016)
6	Denise Realities Private Limited (upto 12th December, 2016)
7	Magenta Computer Software Private Limited
8	Mithra Buildcon LLP
9	Sahrish Construction Private Limited
10	Satguru Corporate Services Private Limited.
11	Satguru Infocorp Services Private Limited
12	Skystar Buildcon Private Limited
13	Starlight Systems (I) LLP
14	Starlight Systems Private Limited
15	Starteck Lifestyles Private Limited
16	Sunteck Fashions & Lifestyles Private Limited
17	Sunteck Infraprojects Private Limited
18	Sunteck Lifestyle International Private Limited
19	Sunteck Lifestyle Management DMCC
20	Sunteck Lifestyles Limited

21	Sunteck Property Holding Private Limited
22	Sunteck Real Estates Private Limited
23	Sunteck Realty Holdings Private Limited
<b>Sr. No.</b>	<b>Associates</b>
1	Topzone Mercantile Company LLP (upto 1st October, 2016)
<b>Sr. No.</b>	<b>Joint Ventures</b>
1	Assable Buildcon LLP (upto 25th March, 2017)
2	GGICO Sunteck Limited
3	Kanaka & Associates (Partnership Firm) (refer note no. 54)
4	Nariman Infrastructure LLP
5	Pathway Buildcon LLP (upto 25th March, 2017)
6	Piramal Sunteck Realty Private Limited
7	Uniworth Realty LLP

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