

## Sunteck Realty Limited

April 22, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities – Term Loan	516.00	<b>CARE AA-; Negative (Double A Minus; Outlook: Negative)</b>	<b>Outlook revised from ‘Stable’ to ‘Negative’</b>
Long term Bank Facilities – Fund based	533.00	<b>CARE AA-; Negative (Double A Minus; Outlook: Negative)</b>	<b>Outlook revised from ‘Stable’ to ‘Negative’</b>
Short term Bank Facilities – Non-Fund based	10.00	<b>CARE A1+ (A One Plus)</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>1,059.00 (Rs. One thousand and fifty nine crore only)</b>		
Commercial Paper issue#	<b>100.00 (Rs. One hundred crore only)</b>	<b>CARE A1+ (A One Plus)</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*

### Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities and short term instrument of Sunteck Realty Limited (SRL) continues to derive strength from the vast experience of promoters in the real estate business, steady pace of execution of ongoing projects, improvement in sales and collections backed by new projects launched and catering to various segments of the society with ready to move in projects in the premium, mid-income and affordable housing segment. The ratings also derive strength from having a strong brand recall in the Mumbai Metropolitan Region (MMR), Joint Venture (JV)/ Joint Development Agreement (JDA) model leading to an asset light model and providing steady cash flow visibility over the near to medium term and SRL's comfortable financial risk profile marked by healthy cash accruals, favorable capital structure and adequate liquidity position. The rating also takes into consideration the management's stated articulation that the net debt to equity will not exceed 0.25x at all times 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, moderate approval risk, geographical concentration 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 sales momentum as envisaged of both, completed and on-going projects along with timely collection from sold inventory amidst slowdown in the real estate market while maintaining its favourable capital structure will remain the key rating sensitivities.

### Outlook: Negative

The revision in the outlook from "Stable" to "Negative" reflects expected moderation in the credit risk profile of entities involved in the real estate development owing to the ongoing lockdown in the country implemented by the central government towards containment of COVID-19. This has resulted in the disruption in operational activities i.e. stoppage of the construction work at various sites coupled with diminished sales and collection activities which is expected to impact the cash flows of the company adversely.

Moreover, CARE believes that the lockdown is expected to severely impact the already ongoing sluggish realty market in the medium term. In CARE's opinion, once the lockdown is lifted, the recovery in the residential housing segment is expected to be slow and gradual as buyers may choose to defer their purchases as they may turn to be risk averse. This may impact sales/collection momentum as well as new sales launches as the developers may choose to wait for the demand in the residential segment to pick-up. Moreover, the company has envisaged healthy collections in FY21; however achievement of lower than 45% of anticipated cash flows for FY21 by H1FY21 is expected to be key rating monitorable. CARE will closely monitor the achievability of the same by September 2020. However, as per the management, the company has not availed moratorium under the scheme.

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

While the central government's lockdown is applicable till May 03, 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.

### Key Rating Sensitivities

#### Negative factors:

- Lower than anticipated cash flows from the existing or new projects resulting into lower cash flows and higher dependence on debt resulting into net debt to equity exceeding more than 0.25x
- Deterioration in cash coverage ratio to less than 1.5x

#### 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 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 in getting land parcels with clear titles. Majority of the projects of SRL is either under JV/JDA model. The company prefers to execute projects outside Mumbai particularly through joint development agreements. SRL follows the strategy to start the monetization of land in around 12-18 months' time period. In the past, the company has demonstrated prudent land acquisitions, it acquired BKC land parcel (151,885 sq ft) for ~Rs.660 crore and Goregaon land parcels (971,951 sq ft over three land parcels located close to each other) for ~Rs.430 crore. The relatively low cost land is then used for development of high-end housing projects which in turn fetches higher returns for the company.

SRL has 23 acres of land parcel available for development in ODC, Goregaon (West) with development potential of ~55 lsf. Sunteck City Avenue 1 and 2 (13.6 lsf) are being constructed in the first phase of development. Sunteck City Avenue 3, 4, 5 and 6 (42 lsf) will be developed in the next phase. SRL has entered into a Joint Development Agreement by paying Rs. 50 crore upfront through internal accruals to develop 100 acre land parcel in Naigaon in Mumbai's extended Western suburbs with sales potential of ~120 lsf.

###### ***Successful track record of project management and execution***

SRL's leading brand positioning in the Mumbai domestic real estate sector is marked by its presence across residential and commercial segments. The group has completed 9 projects (including sunteck centre) covering approximately 22 lsf as at December 31, 2019. The group is executing 8 ongoing projects with a total area of 38.5 lsf and has 11 planned and upcoming projects with a total area of ~269 lsf.

SRL has a huge portfolio of ongoing, upcoming and planned project which faces low execution and approval risk as most of the projects already have approvals in place.

###### ***Considerable financial flexibility & low gearing level***

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. SRL has no Promoter / Corporate Guarantee, or Pledge of shares and significant unutilized loan limits enabling smooth cash flow management. SRL has Rs. 737 crore of debt outstanding as on September 30, 2019, which comprises of Rs. 676 crore of secured debt and Rs. 61 crore of unsecured loans.

Overall gearing ratio is 0.25x as on September 30, 2019 from 0.22x as on March 31, 2019. The company had cash/bank balance of Rs. 126.5 crore as on September 30, 2019.

###### ***Steady cash flow visibility from its launched projects***

As on Dec 31, 2019, the company has sold around 42.48 lsf (Dec 31, 2018: 35.62 lsf) of the total area of about 64.74 lsf (including 16.5 lsf of affordable housing project) of the completed and ongoing projects. The total sale value for the sold inventory as on Dec 31, 2019 is Rs. 6,567 crore (Dec 31, 2018: Rs. 5,712 crore) out of which SRL has received Rs. 5,123 crore (Dec 31, 2018: Rs. 4,376 crore). The sales momentum has improved due to good response of affordable project at Naigaon and Sunteck City 4th Avenue which has been recently launched in Q3FY20. SRL registered a healthy collections in Jan'19-Dec'19 mainly from Goregaon projects at Rs. 747 crore (Jan 18 to December 18 was Rs. 608 crore). Going forward BKC

project, Goregaon projects, Andheri West Lokhandwala and Naigon project is expected to contribute majority of sales and collections over FY20-FY22.

#### **Key Rating Weaknesses**

##### ***Aggressive development plans going forward***

The scale of operations of the SRL is set to increase substantially from 8 ongoing projects of 38.56 lsf to 19 projects (ongoing, upcoming and planned) with area of ~308 lsf (including affordable housing of 120 lsf to be developed in 3 phases by FY24) to be executed over a period of next 6-8 years.

##### ***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 as SRL has approvals/clearances for all its ongoing projects, thus protecting its near-to-medium term cash flows from any delays in statutory clearances/approvals.

##### ***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.

##### ***Geographical and Project Concentration Risk:***

SRL has a strong presence in Mumbai, with majority i.e. around 98% of the sales concentrated in the Mumbai Metropolitan Region. The top three projects at BKC, Sunteck City ODC (Ram Mandir) and Sunteck West World (Naigaon) together are likely to contribute around 85% to total residential sales over the next few years. Nevertheless, some comfort from the completed inventory and on-going projects under various ticket sizes catering to the premium segment at BKC, mid-segment at ODC, Airoli, and Borivali and affordable segment (over INR5,000 per sf.) in Naigaon.

##### ***Cyclical 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: Adequate**

SRL has adequate financial flexibility on account of low utilization of around 45% of its sanctioned overdraft/line of credit facilities of Rs. 640 crore thereby providing sufficient liquidity cushion. The company had free cash/bank balance of Rs. 126 crore on September 30, 2019. The PBILDT interest coverage has improved from 4.48x in FY18 to 7.38x in FY19.

**Analytical approach:** Consolidated

##### **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](#)

[Rating Methodology for Real Estate Sector](#)

##### **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

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

Brief Financials Consolidated (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	891.02	890.77
PBILDT	429.92	429.3
PAT	223.99	241.12
Overall gearing (times)	0.21	0.22
<b>Adjusted Overall Gearing<sup>^</sup></b>	<b>0.31</b>	<b>0.31</b>
Interest coverage (times)	4.42	7.38

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

**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	-	-	March 2024	516.00	CARE AA-; Negative
Fund-based - LT-Bank Overdraft	-	-	-	533.00	CARE AA-; Negative
Non-fund-based - ST-BG/LC	-	-	-	10.00	CARE A1+
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 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	516.00	CARE AA-; Negative	1)CARE AA-; Stable (03-Apr-20)	1)CARE AA-; Stable (05-Apr-19)	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)
2.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (03-Apr-20)	1)CARE AA-; Stable (05-Apr-19)	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.	Fund-based - LT-Bank Overdraft	LT	533.00	CARE AA-; Negative	1)CARE AA-; Stable (03-Apr-20)	1)CARE AA-; Stable (05-Apr-19)	1)CARE AA-; Stable (15-Jun-18) 2)CARE AA-; Stable (01-Jun-18)	-
4.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	1)CARE A1+ (03-Apr-20)	1)CARE A1+ (05-Apr-19)	1)CARE A1+ (15-Jun-18) 2)CARE A1+ (01-Jun-18)	-
5.	Commercial Paper	ST	100.00	CARE A1+	1)CARE A1+ (03-Apr-20)	1)CARE A1+ (05-Apr-19)	1)CARE A1+ (15-Jun-18)	-
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (05-Apr-19)	-	-

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

Name of the Instrument	Detailed explanation
Financial Covenants	• Repayment terms as per sanction letters
	• Commission rate: 0.5%
	• Rate of interest: MCLR+ 0.45%.
Non-Financial Covenants	• Purpose: Funding construction and development of project and meeting transaction expenses, Performance guarantee/ Financial guarantee
	• Repayable on demand
	• Penal interest at 1% p.a. above applicable interest rate on the amount of overdue interest/drawings over limits/DP will be charged
	• Prepayment penalty of 1% p.a.
	• Pari passu first charge on project assets.

**Annexure 4: List of entities consolidated**

Subsidiaries	Join Ventures
Advait Infraprojects Private Limited	Piramal Sunteck Realty Private Limited
Amenity Software Private Limited	Nariman Infrastructure LLP
Magenta Computer Software Private Limited	Uniworth Realty LLP
Sahrish Constructions Private Limited	Kanaka & Associates
Satguru Corporate Services Private Limited	GGICO Sunteck Limited
Satguru Infocorp Services Private Limited	
Skystar Buildcon Private Limited	
Starteck Lifestyle Private Limited	
Starlight Systems Private Limited	
Sunteck Fashions & Lifestyles Private Limited	
Sunteck Property Holdings Private Limited	
Sunteck Realty Holdings Private Limited	
Sunteck Infraprojects Private Limited	
Sunteck Real Estates Private Limited	
Sunteck Lifestyle Limited	
Sunteck Lifestyle International Private Limited	
Sunteck Lifestyle Management DMCC	
Starlight Systems (I) LLP	
Clarissa Facility Management LLP	
Mithra Buildcon LLP	

**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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### About CARE Ratings:

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