

Transcon - Sheth Creators Private Limited

December 22, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	993.00	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed; Outlook Revised from Stable
Total Bank Facilities	993.00 (Rs. Nine Hundred Ninety-Three Core Only)		

Details of facilities in Annexure-1;

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Transcon - Sheth Creators Private Limited (TSCPL) derive strength from the long standing track record of operations in the real estate industry with the promoters of Tanscon and Sheth Group together developing over 20 million sqft over the last 30 years, favorable location of project, presence of an escrow mechanism wherein all cash flows from the project will be deposited and the usage being monitored by the lenders. The rating also factors in improved sales momentum in the project with about 83% of the total developed area sold out as on September 30, 2020 and satisfactory collections against the receivables. The rating is, however, tempered by the delayed project execution with the first tower launched in 2011, project execution & sales risk for the balance three towers (45% of total space being developed) given the high dependence on customer advances for funding the balance construction cost, high debt level with entire debt proposed for the project availed for partial construction (~55%), high cost debt funding denting the cashflow position, competition from other well-known developers in the vicinity of the project and inherent cyclical nature of the real estate sector.

Outlook: Negative

The revision in the outlook factors in the project execution risk with only 55% of the planned space under construction and balance 45% to be funded through sales receipt thereby posing high dependence on sales momentum and high cost debt fund which would pressurize the cashflow. CARE will continue to monitor the sales, collections and construction status and the outlook may be revised to Stable if there is a meaningful progress in the said parameters.

Key Rating Sensitivities

Positive Factors

- Completion of the project before the timelines scheduled
- Significant growth in sales of the balance units
- Any fund infusion by the promoter companies to expedite the project construction/support cashflows

Negative Factors

- Any delay and cost overrun in the construction of the project
- Slowdown in sales momentum with company realising lower collections from the envisaged levels
- Availing any additional unenvisaged debt and/or refinancing of existing debt with significantly high cost debt fund

Detailed description of the key rating drivers

Key Rating Strengths

Experience of promoters in real estate development

TSCPL has been promoted by Transcon Group and Sheth Creators Group, which have 80% and 20% stake respectively in the company. Both Sheth Creators group (Promoted by Jitendra N Seth and Vallabh N. Sheth) and Transcon group have vast experience in real estate development. Both the groups together have developed over 20 million sq. ft. of Residential, Commercial and Retail space across Mumbai & Thane.

Favorable location of projects within Mumbai micro-market

TSCPL is, currently, developing residential projects (namely Auris Serenity and Auris Bliss) and one commercial project (Auris Galleria), 4 rehabilitation buildings under the Slum Rehabilitation Authority (SRA) scheme. The project comprises seven towers and one shopping complex. The property is located at off link Road of Malad West in Western Suburbs. The area is well-connected to the Western Express Highway, Link Road and SV Road. It has close proximity to the domestic and international airports, apart from the good rail connectivity. All the well-known shopping centers like D-Mart, Croma, Hyper City, Infinity Mall and Inorbit Mall are located close to the project.

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

Presence of escrow mechanism

The company has availed debt from Piramal Capital and Housing Finance, State Bank of India and Axis Finance. The sanctioned terms stipulates escrow of sales receipt wherein all cash flows from the project will be deposited and usage will be monitored. Further, the debt availed from Axis and Piramal stipulate maintenance of Debt Service Reserve Account (DSRA) for one month debt servicing which the company has been maintaining in the form of undisbursed debt.

Improved sales momentum for a short tenor: The company has sold about 84% of the total developed area as on September 30, 2020 as against 73% as on December 31, 2020. The sale momentum has picked from September 2020 after the reduction of stamp duty charges by the Maharashtra Government from 5% to 2% (for the period September 2020 to December 2020) as well as downward revision in prices by the developer. Consequently, the company has sold 2,12,051 sft space during 7MFY21 (vis-à-vis 1,11,719- during 7MFY20). The ability to maintain satisfactory sales momentum would be a key monitorable.

Key Rating Weaknesses**Delays in project implementation:**

The project commenced its construction in 2013 and the construction was to be completed by 2021. However due to the slowdown in real estate industry and change in scope from the initial planned 2.52 msf to 3.8 million sft the project got delayed.

High dependence on customer advances for balance space

The company is developing total 3.78 million sft space with an estimated project cost of Rs.5,212 crore which is expected to be funded by a mix of promoter funds (Rs.158 crore), external debt (Rs.1683 crore) and balance through customer advances (Rs.1683 crore). While the company has developed 55% space, construction on balance 45% is yet to commence in a large way. The project has already drawdown the majority of the debt availed and hence the balance construction cost is proposed to be funded majorly through customer advance resulting in high project execution and sales risk. The project has committed receivable of Rs.608 crore as September 30, 2020 which provides for 22% of balance project cost and total debt. Also the interest rate on the borrowings remained on higher side with the company borrowing loans in the range of 15.5% there by increasing the cost of the project.

With few of the lenders reducing the existing the real estate exposure, existing loans may be refinance with fresh loans. Availing any additional envisaged debt and/or refinancing of existing debt with significantly high cost debt fund will be a key rating factor.

Execution and approval risk persists

The project is being developed under the Slum Rehabilitation Authority (SRA) scheme. In terms of construction, Tower 1 construction is completed and it also received the Occupancy Certificate. For the second tower Mechanical, Electrical, and Plumbing are pending, whereas the construction is completed. For the third tower the construction till 44th floor out of 58 floors has been completed and for the fifth tower the construction till 23rd floor out of 40 floors has been completed. The construction of two basements along with the excavation is completed. For slum rehabilitation project, construction of two slum rehabilitation towers has been completed and one tower has received the occupancy certificate. For other two towers, the RCC is completed. Also, construction of Tower-4, 6 & 7 are pending (34% cost incurred). Thus, there persists significant execution risk as major portion of the project is yet constructed.

Impact of Covid

The sales and collections were impact due to due to lockdown in April and May 2020, with the company selling only 1 units in April and May 2020. Post easing of lockdown and revision of prices, the sales have picked up. The company has decreased the prices by about 10% which also helped in increasing the sales. The company has also taken moratorium from Piramal and SBI during the 6 months from March 2020 to August 2020

Cyclical nature of real estate industry subject to regulations and Competition from other players

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, 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. Also there exists competition from up-coming and completed projects of other well-known developers in the region.

Liquidity Position – Adequate

The company had cash and bank balances of Rs.16 crore as on September 30, 2020. With the sales and collections trend improving from September 2020, the liquidity position of the company has improved. However in-view of the higher debt repayment, it is crucial for the company to maintain the collections at envisage levels

Analytical Approach – Standalone**Applicable Criteria**

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

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

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

[CARE's rating methodology for real estate sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the company

TSCPL was originally incorporated as Transcon Properties Pvt. Ltd. in June 1986. Subsequently, in February 2013, the company changed its name to Transcon - Sheth Creators Pvt. Ltd. with the introduction of Sheth Constructions Group as a partner in JV. TSCPL is promoted by the Transcon Group and Sheth Creators Group. Transcon group holds 80% and balance is held by Sheth Creators Group. TSCPL is currently developing 2 residential projects (namely Auris Serenity and Auris Bliss), 4 rehabilitation buildings, One commercial building and 1 transit tenement building under the Slum Rehabilitation Authority (SRA) scheme. The total saleable area of the project is 3.79 million sq. ft. with 2, 3 & 4BHK configurations. The company has developed 2.1 mn sft space which has been sold out to an extent of 83% at an average price of 13,469 per sft.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	610.92	448.21
PBILDT	245.91	143.72
PAT	4.82	2.36
Overall gearing (times)	44.54	37.57
PBILDT Interest coverage (times)	0.98	1.03
PBIT Interest Coverage (times)	0.98	1.02

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

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

Complexity level of various instruments rated for this company: Annexure 4

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	-	-	-	988.00	CARE BBB-; Negative
Fund-based - LT-Bank Overdraft	-	-	-	5.00	CARE BBB-; 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 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	-	-	-	-	1)Withdrawn (10-Sep-18) 2)CARE BBB-; Negative (06-Apr-18)	1)CARE BBB-; Stable (18-Apr-17)
2.	Fund-based - LT-Term Loan	LT	988.00	CARE BBB-; Negative	1)CARE BBB-; Stable (10-Apr-20)	-	-	-
3.	Fund-based - LT-Bank Overdraft	LT	5.00	CARE BBB-; Negative	1)CARE BBB-; Stable (10-Apr-20)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities: NA
Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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