

## Rating Advisory

May 13, 2020 | Mumbai

### Garnet Construction Limited

#### Advisory as on May 13, 2020

This rating advisory is provided in relation to the rating of Garnet Construction Limited

The key rating sensitivity factors for the rating include:

- Terms with new tenant
- Saleability and timely receipt of customer advances
- Time or cost overruns in project execution
- Significant debt-funding of prospective projects affecting the capital structure

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Garnet Construction Limited (GCL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If GCL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

#### About The Company

Incorporated in 1992 and promoted by Mr Kishan Kedia, Mr Sanjey Kedia, and Mr Arun Kedia, GCL undertakes residential and commercial real estate development in Maharashtra. Its registered office is in Mumbai.

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## Rating Rationale

February 15, 2019 | Mumbai

### Garnet Construction Limited

*Rating downgraded to 'CRISIL BB/Negative'*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.19.45 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BB/Negative (Downgraded from 'CRISIL BBB- (SO)/Negative')</b>
<b>Long Term Rating</b>	<b>CRISIL BB/Negative (Downgraded from 'CRISIL BB+/Stable')</b>

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has downgraded its rating on the lease rental discounting (LRD) loan of Garnet Construction Ltd (GCL) to '**CRISIL BB/Negative**' from 'CRISIL BBB-(SO)/Negative', and has downgraded its rating on the company's proposed long-term bank facility (other than LRD loan) to '**CRISIL BB/Negative**' from 'CRISIL BB+/Stable'.

The downgrade in the rating on the LRD loan reflects non-receipt of lease rental from L&T Ltd for the over 4 months. Consequently, obligation on the term loan is being met through surplus funds available with GCL in form of sale proceeds from land sale or from advances received from sale of flats. L&T Ltd has now vacated the plot, and GCL has started looking for a new tenant and is also exploring the option of selling part of the land for full repayment of the outstanding loan. The downgrade in the rating on the non-LRD loan reflects the fact that cash flow from the real estate segment is being utilized to repay the LRD loan. Also, flow of advances is slower than earlier anticipated due to non-receipt of occupancy certificate for completed projects.

The ratings continue to reflect the extensive experience of the promoters in the real estate sector and large land bank, timely execution of recently completed projects, and above-average financial risk profile because of low gearing and comfortable debt protection metrics. These strengths are partially offset by exposure to risks related to implementation of large projects and susceptibility of cash flow to cyclicity inherent in the real estate industry.

## **Key Rating Drivers & Detailed Description**

### **Strengths:**

#### **\* Extensive experience of the promoters in the real estate sector and large land bank**

GCL was set up in 1992 by the Kedia family, which has been engaged in the residential and commercial real estate segments since 2006. The Kedia family has an established track record in the real estate industry, having undertaken and executed several projects with an aggregate area of 45 lakh square feet, including industrial estates and industrial parks, in various parts of Maharashtra. The promoters have longstanding presence in the real estate business in Mumbai and surrounding areas, and extensive knowledge of the market.

GCL has land bank of 661 acres in the Khalapur region alone, which was acquired at low rates, providing flexibility to raise additional funds if needed.

#### **\* Above-average financial risk profile**

Limited debt resulted in low gearing of 0.53 times as on March 31, 2018. Debt protection metrics were moderate, reflected in interest coverage of 2.2 times in fiscal 2018. However, for its upcoming projects, GCL may have to rely on debt.

#### **\* Timely execution of projects:**

GCL recently completed its commercial project, Garnet Palladium, in Goregaon, Mumbai. It has also completed development and construction of residential projects, Magic Hill Bungalows and Magic Hill Plots in Khalapur. These projects have been completed without significant time or cost overruns. Moreover, the projects have received healthy response with most of the inventory sold and advances received.

### **Weakness**

#### **\* Exposure to risks related to implementation of large projects**

GCL has 4 upcoming projects: Brillante (Residential: Panvel), Magic Heaven (Residential: Khalapur), Magic Heaven (Commercial: Khalapur), and Magic Life Eclore (Residential: Khalapur). Completion of the projects without any time or cost overrun remains a critical rating sensitivity factor.

The timely completion of these projects depends on the booking level and receipts from customers. Any delay in inflow of customer advances due to subdued bookings may impact construction, thereby affecting the company's cash inflow and liquidity. Realisation could also be affected by price volatility on account of demand-supply fluctuations. The impact on realisations could affect GCL's financial risk profile and cash generation.

CRISIL believes GCL's operating performance will remain susceptible to timely completion of projects and flow of advances from them.

#### **\* Susceptibility of cash flow to cyclicity inherent in the real estate sector**

The real estate sector is cyclical and is sensitive to cues, including local and global economic conditions, and interest rates. The execution of real estate projects is subject to multiple property laws and government regulations. The risk is compounded by aggressive timelines for completion, and shortage of manpower (project engineers and skilled labour) in the sector. The recent slowdown in the real estate sector has delayed the execution and saleability of several projects. With increase in supply and attractive prices offered by various builders, and constant regulatory changes, the profitability of real estate players may come under pressure over the medium term. Any change in regulatory norms related to parameters such as FSI (Floor Space Index) and CR2 norms will also impact the real estate market.

GCL's projects are concentrated in Maharashtra. Any downturn in the economy in the state may constrain the company's business risk profile.

CRISIL believes GCL's business risk profile will remain exposed to the inherent risks and cyclicity in the real estate sector.

## Liquidity

GCL has average liquidity, as indicated by average DSCR of over 1.5 times over the medium term. Cash and cash equivalent was modest at Rs 0.17 crore as on March 31, 2018. Timely inflow of customer advances will remain a rating sensitivity factor.

## Outlook: Negative

CRISIL believes GCL will continue to benefit from the extensive experience of its promoters in the real estate sector and their large land bank. The ratings may be 'Downgraded' if liquidity weakens because of delays in receipt of customer advances, or time or cost overrun in upcoming projects or higher than anticipated debt for new projects. The outlook may be revised to 'Stable' if GCL is able to find a new tenant which will result in stable cash flow, leading comfortable debt service coverage ratio (DSCR), or if better-than-expected booking of unsold units and receipt of customer advances on time leads to higher cash inflow, and if the new projects receive healthy response.

## About the Company

Incorporated in 1992 and promoted by Mr Kishan Kedia, Mr Sanjay Kedia, and Mr Arun Kedia, GCL undertakes residential and commercial real estate development in Maharashtra. Its registered office is in Mumbai.

## Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs crore	5.84	11.36
Profit after tax (PAT)	Rs crore	1.21	1.35
PAT margin	%	20.8	11.9
Adjusted debt/adjusted network	Times	0.53	0.51
Interest coverage	Times	2.2	2.3

Any other information: Not applicable

## Note on complexity levels of the rated instrument:

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## Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Lease Rental Discounting Loan	NA	NA	Mar-2024	14.45	CRISIL BB/Negative
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	5.00	CRISIL BB/Negative

## Annexure - Rating History for last 3 Years

Instrument	Current			2019 (History)		2018		2017		2016		Start of 2016
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	19.45	CRISIL BB/Negative			25-04-18	CRISIL BB+/Stable/ CRISIL BBB-(SO)/Negative			27-12-16	CRISIL BB+/Stable/ CRISIL BBB(SO)/Stable	CRISIL BB+/Stable/ CRISIL BBB(SO)/Stable

All amounts are in Rs.Cr.

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Lease Rental Discounting Loan	14.45	CRISIL BB/Negative	Lease Rental Discounting Loan	14.45	CRISIL BBB-(SO)/Negative
Proposed Fund-Based Bank Limits	5	CRISIL BB/Negative	Proposed Fund-Based Bank Limits	5	CRISIL BB+/Stable
<b>Total</b>	<b>19.45</b>	<b>--</b>	<b>Total</b>	<b>19.45</b>	<b>--</b>

## Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[CRISILs Bank Loan Ratings](#)

[The Rating Process](#)

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