Rating Rationale

Cubatic Arcades Pvt. Ltd.

30 May 2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹ 8.70 Crores of Cubatic Arcades Pvt. Ltd.

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based: **Asset Backed Loan #**	**8.70**	**Long Term**	**BWR B (Pronounced as BWR Single B) Outlook stable**
Total	**8.70**	**INR Eight Crores and Seventy Lakhs Only**	

 # Loan amount outstanding as on 28.5.2019

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

BWR has essentially relied upon the Company's audited financials up till FY18, Provisional statement for 28.2.2019, Projected financials for FY 19 & FY 20, publicly available information and information/clarifications provided by the management.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

The rating has inter-alia, factored experience of the management in infrastructure and civil construction industry for more than three decades, hands on experience with reputed construction companies, established track record, existing projects on hand, improved net worth and ability to meet competition from many small & medium units in the region. However, the ratings are constrained by infant stage of the unit, completion of the projects within stipulated timelines, achievement of projected revenue and profitability levels, high gearing and intensive working capital requirement.

Going forward ability of the company to complete its projects within stipulated time, to achieve its revenue and profit levels, to improve its gearing ratio, to meet its debt obligations in a timely manner and to manage its working capital efficiently will be the key rating sensitivities.

Description of Key Rating Drivers

- **Credit Strengths:**

Management Experience: Promoter directors are professionally qualified and have vast experience in civil construction and infrastructure industry. Mr. T Sathi Babu, Managing Director has been in the infrastructure and construction sector for more than 30 years

Existing projects on hand: As reported by the management, cost of the projects on hand under the name of "Hitech city", "Arcade" and "Aster" around the region of Hyderabad and Bangalore was aggregated at Rs. 38.00 crs approx, (against revenue estimates of Rs. 54.00 crs for FY19)

Improved Net worth of the company: Net worth of the company for FY18 stood at Rs. 2.83 crs as compared to Rs. 0.10 cr in FY17. During the year the company has brought in further share capital of Rs. 2.99 crs

Associate businesses of the company: Management having two other associate companies carrying on similar line of activity around the region of Hyderabad and Bangalore

- **Credit Risks:**

Infant stage of the business activity: The company was incorporated during October, 2016; hence the business operations are in its inception stage

High gearing ratio of the company: Gearing ratio of the company was high for FY18 and FY17, mainly due to inception stage of the business activity. It stood at 3.71 times for FY18 as against 70 times in FY17

Achievement of projected revenue and profitability level: Operating revenue for FY18 and FY17 was Nil. As per the management, revenue from operations will be recognized on completion / registration of the each of the individual blocks with respect to the on-going projects. While, PAT for FY18 is at Rs. (0.17) crs which includes, cost of operations - employee costs, depreciation and other administrative expenses

Risk relating to time and cost overruns: Inherent risk as to completion of its projects within stipulated time is inevitable

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **Cubatic Arcades Pvt. Ltd.'s** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

M/s. Cubatic Arcades P Ltd (CAPL) was incorporated on 18th October 2016 for the development of Commercial and Residential projects in and around Hyderabad and Bangalore. The registered office of the company is located at Madhapur, Hyderabad. Management of the company is constituted by five directors, Mr. T Sathi Babu, Founder & Managing Director; Mr. Lakshmi Narayana Rao, Director; Mrs. Sai Deepthi, Director; Mr. Thiparthi Suri, Director; Mr. Premkumar Hirivate, Director. Major on-going projects of the company includes - "Arcade", Kondapur Residential Apartment, Hyderabad; "Hitech City" Commercial building, Hyderabad and "Aster", Devanahalli Residential Project, Bangalore. Further, it has a proposed project at JP Nagar, Bangalore for construction of Residential complex. It has two other associate businesses carry on similar line of activity under the names of Cubatic Infra & Power P Ltd and Cubatic Projects P Ltd.

Management Profile

Management of the company is constituted by five directors, Mr. T Sathi Babu, Founder & Managing Director; Mr. Lakshmi Narayana Rao, Director; Mrs. Sai Deepthi, Director; Mr. Thiparthi Suri, Director; Mr. Premkumar Hirivate, Director. All the directors are professionally qualified and have vast business experience. Mr. T Sathi Babu is a Civil Engineer and has extensive knowledge and experience in the field of Real Estate, Infrastructure, Construction and Marketing for more than 33 years. He has hands on experience with companies like Lanco, Phoenix, etc. He is further supported by a team of professionals having experience in the industry.

Company's Financial Performance

CAPL's Revenue from operations for FY18 & FY17 was Nil. As per the management, revenue from operations will be recognized on completion / registration of the each of the individual blocks with respect to the on-going projects. While, PAT for FY18 was at Rs. (0.17) crs which includes, cost of operations and depreciation expenses incurred. Net worth of the company for FY18 stood at Rs. 2.83 crs as against Rs. 0.01 crs in FY17. Gearing of the company was high with Debt Equity ratio at 3.71 times.

Rating History for the last three years

S.No	Facility	Current Rating (2019)			Rating History		
		Type	Amount (₹ Crs)	Rating	FY18	FY17	FY16
1	**Fund Based:** **Asset Backed loan**	Long term	8.70	**BWR B (Pronounced as BWR Single B) Outlook stable**	-	-	-
	Total		**8.70**	**₹ Eight Crores and Seventy Lakhs Only**			

Status of non-cooperation with previous CRA (if applicable)-Reason and comments: Not Applicable

Any other information: None

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Service Sector**

Analytical Contacts	Investor Contacts
K S Nagaraj Associate Director - Ratings B :+91 80 4040 9940 nagaraj.ks@brickworkratings.com **Suma Giridhara** Ratings Analyst B :+91 80 4040 9940 Ext :345 suma.g@brickworkratings.com	**Satish Nair** Director - Global Market Development & Investor Relations M : +91 7738875550 B : +91 80 6745 6666 satish.n@brickworkratings.com
1-860-425-2742	

Annexure I : Bank Loan details

Facility	Tenure	Amount Sanctioned (₹ crs)	O/s as on 28.5.19 (₹ crs)
Asset Backed Loan	**Long term**	9.50	8.70
Total		**9.50**	**8.70**

Annexure II :Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	0.00	0.00
EBITDA	₹ Cr	(0.17)	(0.04)
PAT	₹ Cr	(0.17)	(0.04)
Tangible Net worth	₹ Cr	2.83	0.01
Total Debt/Tangible Net worth	Times	3.71	70.00
Current Ratio	Times	0.75	0.54

For print and digital media

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wording in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reason.