

Rating Rationale

Ganesh Housing Corporation Ltd.

25 Nov 2019

Brickwork Ratings downgrades the rating of the bank loan facilities of Rs.260 Cr of Ganesh Housing Corporation Ltd.

Particulars

Facility	Amt Rated (Rs. Cr)		Tenure	Previous Rating (July 2019)	Rating Based on Current Review (Downgrade)
	Fund Based	Previous			
Term Loans	260.10	260.10	Long Term	BWR BBB- (Stable)	BWR BB+ (Negative)
Total Amt	260.10	260.10			

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

BWR has principally relied upon the Audited financial results of Ganesh Housing Corporation Ltd. (GHCL) upto FY 19, unaudited financials for 2QFY20 and publicly available information and information/clarification provided by the Company management.

Rating Action - Downgrade

Downgrade in rating follows deterioration in operating performance of the company for 1HFY20 leading to substantial deterioration in coverage indicators, uncertainty of cashflows for high scheduled debt repayment in FY20 and FY21 and slowdown in the real estate market of Gujarat.

The rating continuous to derive support from extensive experience of the promoters in real estate sector, GHCL's established track record of completed projects, its strong presence in Ahmedabad real estate market comprising of residential and commercial space and integrated township.

The rating also takes into account support from expected cash flows from the upcoming retail project in partnership with of the offshore Fund to take care of debt servicing in current year.

Analytical Approach: GHCL, which is a listed entity is analysed on consolidated basis. 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).

Key Risk Drivers for rating:

Deterioration in operating performance: The Company published its Q2FY20 financials on November 14, 2019. On Consolidated basis during 1HFY20, though the revenue increased from Rs.56 Cr in 1HFY19 to Rs. 195 Cr, the company incurred operating loss of Rs. 10 CR (P.Y operating profit of RS. 64 Cr) and net loss of Rs. 61 Cr (P.Y net profit of Rs. 32 Cr on consolidated basis. On standalone basis during 1HFY20, total revenue declined to Rs.1.14 Cr as against Rs.56 Cr in 1HFY19. It incurred operating loss of Rs. 9.48 Cr and net loss of Rs. 25.25 Cr as against operating profit of Rs. 47 Cr and net profit of Rs. 11 Cr in 1HFY19. There has been substantial decline in revenue and profitability at standalone and consolidated basis as most of the projects were completed and revenue was booked in FY18. Since majority of the revenue of the company was derived from sale of land, with the tightening of funding by the NBFCs to real estate developers, revenue of the company was drastically affected. The company is planning to launch few projects in FY20, revenue and profitability are expected to pick-up after couple of years.

Uncertainty of operating cashflows for Repayment in FY20 and FY21: The Company is having outstanding debt of Rs. 571 Cr on consolidated basis and Rs. 345 Cr on standalone basis as on September 30, 2019. These are in the form of term loans from Banks and financial institutions with the average ROI of 13%. Of this debt, principal of approximately aggregating to Rs. 300 becomes payable in next two years.

The company is planning to service the debt obligations by selling of the land parcels. The company had already signed the two deals for the sale of land parcels and had expected the proceeds of Rs.330 Cr which will primarily be utilized for the repayment of debt obligations. The proceeds are expected by the end of Q3FY20.

Slowdown in real estate market of Gujarat: With significant number of regulations being imposed on Real Estate sector, like RERA, GST, and GDCR (Gujarat Development Control Regulation) and also frequent changes in them, had led to the slow down for FY19 on account of lack of confidence regarding the final price of the product. The customers are forseeing implementation of GST and RERA a reason for uncertainty in prices.

Partnership Project with offshore Fund: The promoters of the company had signed a Memorandum of Understanding (MOU) for development of a Mixed Use Retail project at Thaltej, Ahmedabad, which will be developed in Partnership with an offshore Fund. The land of the project is owned by Group Company - Mahavir (Thaltej) Complex Pvt. Ltd. (MTCPL) of GHCL in which the promoters – Mr. Dipak Patel and Mr. Shekhar Patel owns 100% equity holding. Project will be developed by MTCPL wherein offshore fund will invest 70% of the total project cost by acquiring

70% share capital of MTCPL. Balance 30% share will be owned by Mr. Dipak Patel and Mr. Shekhar Patel.

GHCL is expecting to receive approximately Rs.150 crore (net of Income Tax) from the deal after deducting the promoter's share of investment in the project. These proceeds shall primarily be utilized for repayment of existing loans. Cash flows are expected by the end of Q3FY20.

Land Deal : The Company has entered into Memorandum of Understanding (MOU) for sale of a land parcel and expect the proceeds of Rs.30 Cr in Q3FY20 from the sale.

Experienced and Qualified Management with established track record: GHCL is one of the oldest and largest Real Estate Development Company in Ahmedabad. Since its inception, it has built a strong presence in Ahmedabad and has developed and sold over 22 million sq. ft. of real estate space, with another 2.45 million sq. ft. currently under development. Mr. Dipakkumar Patel is the Chairman of the company with approx. three decades of experience in the industry. Mr. Shekhar Patel is the Managing Director. The company is listed on BSE and NSE. They are supported by qualified and experienced management team.

Rating Outlook: Negative

BWR believes the GHCL's business risk profile will be maintained over the medium term. The 'Negative' outlook indicates continued deterioration in performance of the company with slump in real estate market which has delayed the launch of new projects with tightening of funding by lenders. As such, BWR does not expect revival in the operating performance of the company in near future. Timely receipt of proceeds from the sale of land parcels for servicing of debt repayment and improvement in operating performance of the company will be the key rating sensitivities.

Liquidity (Stretched): As on September 30, 2019, on consolidated basis the company had cash and cash equivalent of Rs. 2 Cr.

About Ganesh Housing Corporation Ltd. (GHCL):

Ganesh Housing Corporation Ltd. (GHCL) is a public limited company engaged in construction of residential and commercial projects in and around Ahmedabad. GHCL was incorporated in 1991 and is promoted by Mr. Shekhar Patel and his family. Till date, the company along with its various SPVs has developed 22 million square feet of projects with 85% of all the development in residential sector.. As on June 30, 2019 company have plans to launch projects having total saleable area of 1.28 million square feet in near future.

The company is planning to launch four projects with the total saleable area of 12,78,043 sq.ft in next one year. These projects are expected to be completed over the next 2 to 3 years.

Financials:

GHCL Rs. Crore	Consolidated		Standalone	
	FY18	FY19	FY18	FY19
Revenue	500	261	208	95
Operating profit	203	77	127	73
Net Profit	51	27	39	11
Networth	967	823	767	767
Total Debt	707	663	429	378
Total Debt to TNW	0.7	0.8	0.6	0.5
Current Ratio	4.3	3.5	4.2	4.7
DSCR	0.5	0.5	0.5	0.5
ISCR	2.0	0.8	2.2	1.3

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Rating History for the last three years: (including withdrawn/suspended ratings)

Sl. No.	Instrument/ Facility	Current Rating (Year 2019)			Rating History		
		Type (LongTerm/ Short Term)	Amt (Rs. Cr)	Rating	July 2019	March 2018	2017
1.	Term Loan	Long Term	260.00	BWR BB+ (Negative)	BWR BBB-(Stable)	BWR BBB (Stable)	BWR BBB- (Stable)
	Total		260.00				

Status of non-cooperation with previous CRA (if applicable): Reason and comments
N/A

Any other information: N/A

Hyperlink/Reference to Applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Sector](#)

For any other criteria obtain hyperlinks from website

Analytical Contacts	Investor Contacts
<p>Bal Krishna Piparaiya Senior Director - Ratings B :+91 22 2831 1426, +91 22 2831 1439 piparaiya.bk@brickworkratings.com</p> <p>Forum R Parekh Assistant Manager - Ratings D : +91 22 6745 6621 B :+91 22 2831 1426, +91 22 2831 1439 forum.rp@brickworkratings.com</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com</p>
1-860-425-2742	

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