

Rating Rationale

19 November 2020

Swagat Infrastructure Pvt. Ltd

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 42.43 Crores of Swagat Infrastructure Pvt. Ltd. (hereinafter referred as the “Company” or SIPL)”

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (October, 2020)	Present
Fund based	55.00	42.43	Long Term	BWR BB+ (Stable) Issuer not cooperating#	Removed from Issuer not cooperating# Category & BWR BB+ (Stable) [Reaffirmed]
Total	55.00	42.43	INR Forty Two Crores and Forty Three Lakhs Only		

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

Complete details of Bank facilities is provided in Annexure-I

#Issuer did not cooperate; based on the best available information.

REMOVED FROM ISSUER NOT COOPERATING CATEGORY AND REAFFIRMATION OF RATING TO BWR BB+ (Stable)

BWR has considered the standalone financials of the Company and essentially relied upon the audited financial statements up to FY19, management certified provisional financials of FY20, projected financials and cash flows up to FY22 and publicly available information and clarifications provided by the entity’s management.

The reaffirmation of the rating factors in the established track record of “Swagat Group” and long standing existence in the real estate industry, healthy customer advances and progress in construction work. The rating is, however, constrained by high reliance on customer advances and high debt levels, project execution risk, the risk with the timely collection of receivables of booked units, which may be expected to be severely hit as a result of the COVID epidemic and cyclicity in the real estate sector.



Further, the Real Estate Regulatory Authority (RERA) has extended the deadline of projects by six months in view of the adverse situation created due to COVID-19 pandemic. SIPL has also availed the moratorium benefit of six months as notified by Reserve Bank of India. Though, any Delay/extension in project completion may result in cost and time overrun.

Description of Key Rating Drivers

Credit Strengths:

- **Long standing experience of the promoters in the real estate sector:** Swagat Group has an established presence in Ahmedabad and Gandhinagar real estate market for more than two decades. The group has successfully executed more than 90 Lac sq. ft. area across residential, commercial and industrial space in the past years. The promoters have been actively supervising the day-to-day activities of the Company, and have demonstrated their capability to infuse funds when needed.
- **Progress in execution of the projects :** The execution progress in the ongoing project has been healthy, which provides comfort for achievability of projections. At present, the company has 4 ongoing projects consisting of 2 residential cum commercial namely “Swagat Pelican”, “Swagat Queensland Phase I-II” at Sargasan, Gandhinagar, 2 residential projects “Swagat Bagan Ville”, at Shilaj, Ahmedabad, “Swagat Agacia” at Sargasan Gandhinagar and Swagat industrial park, at Kalol Gujarat .Total cost of project is Rs, 507.02 crs and incurred the cost of Rs. 293.04 Crs till 31.10.2020.

All projects started in 2017-18 and residential projects “Swagat Bagan Ville”, and “Swagat Agacia” construction is in advance, which is expected to be completed by 2021 & 2022 respectively and the rest of the projects are completed more than 50% and by 2023.

- **Healthy customer advances :** The company has healthy bookings from customers, providing comfort for an adequate liquidity position.SIPL has received customer advances is Rs. 166.19 Crs till 31.10.2020 and outstanding receivables are Rs. 93.75 crs from booked units. Also, the company has been allotted a construction work of 2 commercial projects of associate firm Swagat Developers. Total saleable area is 2677274 sq. ft out of which the booked area (50%) is 1345944 sq. ft as on 31.10.2020. The dependence on customer advances makes it crucial for the Company to achieve sales progress and maintain the cash flows.

Credit risks:

- **Moderate financial risk profile:** The company has reported a total operating income of Rs. 53.60 Crs in FY19 as against Rs. 50.47 Crs in FY18. As per the management certified provisional

financials of FY20, the company has achieved the sales of Rs. 65.11 Crs. The Firm's financial risk profile remains moderate, marked by a net worth base of Rs. 56.64 Crs with a gearing of 2.98x in FY18 and 2.81x in FY19. Bank debt has increased from Rs 144.62 in FY18 to Rs. 168.68 Crs in FY19 and the incremental debt primarily comprises construction finance & business loans. Net profit margins are 9.65% and 8.22% in FY18 & FY19 respectively. Debt protection metrics are weak with ISCR at 2.73x and DSCR at 0.52x in FY19. Going forward, the Promoters ability to infuse funds as per business requirement will be a key rating sensitivity.

- **Execution and project completion risks associated with its ongoing projects-** The construction cost for the ongoing projects are funded through a mix of debt and customer advances. Any delay in funding would pose a challenge in the timely execution of projects. High dependence on customer advances also exposes the Company to cash flow mismatch, especially in the present epidemic situation. Project execution & completion, without any cost over-run, would be a key monitorable.
- **Risks associated with the real estate sector and nature of constitution of the firm:** The firm is exposed to the cyclicity inherent in an intensely competitive real estate sector, which could result in fluctuations in cash inflows because of volatility in saleability. Also, it carries the risk of withdrawal of the capital being a partnership nature of constitution.

RATING SENSITIVITIES

The Company's ability to complete the projects on time, successfully mitigate the risk associated with the COVID-19 pandemic and ramp up the sales and profitability shall be key rating sensitivities

Positive: An improvement in booking advances, infusion of funds, timely completion of the construction, decrease in debt levels are key positive sensitivities.

Negative: Downward pressure on collection and an increase in debt and inventory levels coupled with delay in project execution, withdrawal of the capital are key negative sensitivities.

Liquidity Profile: Adequate

At present, the Company is primarily reliant on the bookings, which have been upto the expectation. Though the remaining collection may remain slow mainly due to the Covid impact, indications about improvement are there. Customer advances of Rs 187.28 crore over fiscals FY19 & FY20 and estimated receivables of Rs. 471.64 Crs from sold and unsold units, SIPL has adequate liquidity in a form of cash accruals, unsold inventories and cash and bank balances, should comfortably cover the current maturing debt in the near term. The balance construction cost of ~



Rs 227.83 crores will be funded partly by customer advances and sanctioned debt. The company has availed a covid line of emergency of Rs 3 Crs and moratorium benefit of 6 months, healthy receipt of advances , promoters contribution may support the liquidity profile of the company.

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).

About the Company:

Swagat Infrastructure Pvt Ltd was incorporated in 1996 at Ahmedabad, Gujarat. Mr. Tarun Varma, the managing director of the group has vast experience in construction business. The operation is supported by two other directors, Mr. Gaurav Varma & Mr. Mrunal Varma. SIPL is engaged in the business of construction of residential & commercial projects, mainly in cities Gandhinagar and Ahmedabad, of Gujarat state.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Not Applicable

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY18	FY19
Result Type		Audited	Audited
Operating Income	₹ in Cr	50.47	53.60
EBITDA	₹ in Cr	12.31	10.91
Net Profit/Loss	₹ in Cr	4.87	4.41
Tangible net worth	₹ in Cr	52.23	56.64
Debt/Tangible net worth	Times	2.77	2.98

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : Not Applicable

RATING HISTORY FOR THE LAST THREE YEARS (including withdrawn/suspended ratings)

S.No	Facility	Current Rating (2020)^			Rating History		
		Type	Amount (₹ Crs)	Rating	12Oct2020	12Mar2019	31July2018
1	Fund Based	Long Term	42.43	Removed from Issuer not cooperating# Category & BWR BB+ (Stable) [Reaffirmed]	BWR BB+ (Stable) (Reaffirmed) Issuer not cooperating#	BWR BB+ (Stable)	BWR BB (Stable) Issuer not cooperating*-
Total			42.43	₹ Forty Two Crores and Forty Three Lakhs Only			

Initial Rating was assigned on 20 April 2017 as BWR BB+ (Stable).

Issuer did not cooperate, based on best available information.

^ Rating not reviewed advisory issued on 13March2020.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

For any other criteria obtain hyperlinks from website

- General Criteria
- What constitutes non cooperation?

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Swagat Infrastructure Pvt. Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl.No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	State Bank of India	Fund Based Dropline Cash Credits	42.43	-	42.43
		Total	42.43	-	42.43

Total ₹ Forty Two Crores and Forty Three Lakhs Only.

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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 reasons.