



Press Release

Vee Aar Life Space LLP

February 08, 2021

Rating

Instrument / Facility	Amount	Rating	Rating Action
Long Term Bank Facilities	100.00	IVR BB+/Stable (Double B Plus with Stable Outlook)	Re-affirmed
Total	100.00 (Rs. One hundred crore only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the rating assigned to the bank facilities of Vee Aar Life Space LLP (VALS) continues to derive comfort from its experienced promoters and long track record of operations, good track record of project completion and market goodwill in Surat, having necessary approvals for all ongoing projects and completed investors and financiers tie up for its ongoing projects. The rating however is constrained by moderation in its financial performance in FY20, moderation in the capital structure albeit high finance cost, exposure to project execution risk with multiple projects executed simultaneously, slow sales momentum for on-going projects and geographical concentration risk.

Key Rating Sensitivities:

Upward rating factor

- Timely receipt of the customer advance and completion of the project in time without any significant delay could also lead to a positive rating action.

Downward Rating factors

- Time or cost overrun in the ongoing projects impacting the financial risk profile.
- Moderation in the capital structure with overall gearing moderated to below 3x and/or deterioration in debt protection metrics with interest coverage ratio below 1x.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and long track record of operations

The firm is part of the Sangini group which has executed 4600 residential and 1800 commercial units in Surat. The promoters are engaged in the real estate business for more than 3 decades.



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The promoters commenced their business through a partnership firm “Vee Aar Associates” and over the last three decades had successfully launched and developed various projects in Surat. The promoters are a mix of civil engineers and business graduates with good experience in the real estate and construction sector and are supported by qualified professionals in the firm.

Good track record of project completion and market goodwill in Surat

Sangini group is a renowned real estate developer in Surat and has a good track record of completing multiple projects. Hence the goodwill of the group helps in achieving sales across its projects. As for every real estate organisation, off-take risks continue to remain a challenge in the construction phase of a project. Sangini Terraza, having 46 units/apartments has been successfully completed in September 2019 and close to ~85% of the apartments have been sold with limited flats remaining, as per the information shared by the company.

Obtained necessary approvals for all ongoing projects

Vee Aar currently has two under construction project on-going projects with 0.8 million sf area at different stages of execution. The company has received necessary approvals for all of its ongoing projects, mitigating the regulatory risks in entirety.

Investors and financiers tied up for ongoing projects

The firm has engaged investors and unsecured loans to meet the funding required for its ongoing projects. The balance construction of the projects would be funded from the undisbursed term loan and promoter’s funds. This mitigates project finance risk to an extent.

Key Weaknesses

Moderation in financial performance and moderation in capital structure albeit high finance cost

The firm booked a total revenue of Rs.36.21 crore with an EBITDA of Rs.19.57 crore in FY20 and a PAT of Rs.1.89 crore in FY20 as against a total revenue of Rs.36.62 crore with an EBITDA of Rs.23.84 crore and a PAT of Rs.6.43 crore in FY19. The moderation in financial performance was mainly due to slow sales of completed project Terazza and recognition of sales is considered ones the transaction is completed with handover of apartment. The firm continues to have a high finance cost (Rs.17.72 crore in FY20) owing to its high dependence on external borrowings. The long-term debt equity ratio of the firm was moderate at 1.78x with a high overall gearing of 2.20x as on March



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31, 2020. The debt protection metrics marked by interest coverage ratio remained weak at 1.10x in FY20 (1.38x in FY19).

Project execution risk with multiple projects executed simultaneously

The company is simultaneously executing three residential projects simultaneously. The projects are of different sizes with long gestation period and are at various stages of completion. Multiple projects intensify project execution risk as real estate projects involves various external factors like availability of labour, availability of construction materials, requisite approvals, clearances, economic scenarios etc. Considering the gestation period of around three years for completion of real estate projects, any volatility in the raw material prices and labour costs will impact the cost of the project as the selling prices are fixed upon booking.

Slow sales momentum for on-going projects

“Sangini Arise” and “Sangini Evoq” are the two projects under construction currently with a total saleable area of nearly 6.69 lakh sq. ft. estimated at Rs.460 crore. Out of the 301 units which are available for sale by combining both the units, the firm has received booking and advances for 111 units, amounting to ~Rs.160 crore as on December 15, 2020. These two projects launched through FY16 and FY17 have witnessed slowdown in execution and booking due to the unfavourable market scenario in the State and also because of Covid impact in CY2020. However, all the projects are bank approved which imparts some comfort.

Geographical concentration risk

All of the past and ongoing projects of the group is located in Surat, Gujarat which exposes the company to geographical concentration risk. Any adverse movement in the regional real estate market can impact the overall operations of the company.

Liquidity - Adequate

Although the liquidity of the firm is dependent on debt from bank, unsecured loan and timely receipt of customer advance, the construction of both the projects are being maintained within the timeline. All the projects are approved by the Bank and the firm has already achieved ~35% of cumulative booking amount of the combined project estimate till December 2020 for the on-going projects and do not envisage any delay in loan disbursement on the basis of the progress of construction. Based on past experience of the group, liquidity position is expected to remain adequate in the near to medium term.



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Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Real Estate Companies

Financial Ratios & Interpretation (Non- Financial Sector)

About the LLP

Established as a partnership firm in 2005 in Surat as Vee Aar Associates and later in 2017 converted into a limited liability partnership firm Vee Aar Life Space LLP is engaged in real estate and commercial property development. The firm is a part of the Sangini Group engaged in construction of residential and commercial projects since 1984. Sangini Arise and Sangini Evoq, earlier supposed to be completed in FY21, have been rescheduled to be completed by FY23.

Financials: Standalone

(Rs. crore)

For the year ended*/ As on	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	36.62	36.21
EBIDTA	23.84	19.57
PAT	6.43	1.89
Total Debt	133.42	154.33
Tangible Net worth	62.63	70.06
EBIDTA Margin (%)	65.11	54.05
PAT Margin (%)	17.55	5.21
Overall Gearing Ratio (x)	2.13	2.20

*as per Infomerics standards

Status of non-cooperation with previous CRA: Vide the last press releases dated July 30, 2019, India Ratings & Research Pvt Ltd, have moved the rating to issuer non cooperating category due to non-submission of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Term Loan	LT	100.00	IVR BB+ / Stable Outlook	IVR BB+ / Stable Outlook Jan. 15, 2020		-



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Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan	-	-	June 2023	100.00*	IVR BB+ / Stable Outlook (IVR BB Plus with Stable Outlook)

*Sanctioned