March 11, 2022

Shivam Megastructures Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	360.00	360.00	[ICRA]BBB (Stable); reaffirmed
Total	**360.00**	**360.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating factors in the healthy bookings and cash flow adequacy ratio[1] of Shivam Megastructures Private Limited's (SMPL) ongoing projects – Godrej Tranquil and Godrej Nest. Out of the saleable area of 0.92 million sq ft, the company has sold 0.78 million sq ft (85%), while the cash flow adequacy ratio was healthy at 84% as on December 31, 2021. The rating derives comfort from the development management (DM) tie-up with Godrej Properties Limited {GPL, rated [ICRA]AA (Positive)/[ICRA]A1+}, one of the largest real estate developers in the country, which has given a strong market position to the project and enabled healthy bookings.

Moreover, the rating factors in the favourable location of the projects at Kandivali (East) in Mumbai and the established track record of the promoter Group in Mumbai's real estate sector. Additionally, the company had an undrawn debt of Rs. 83.4 crore as on December 31, 2021, providing liquidity buffer in case of any interim cash flow mismatches.

The rating is, however, constrained by the exposure to execution and funding risks as SMPL depends on timely collections against construction milestones to meet its pending construction costs and debt repayments. The principal repayments commenced in FY2022 for the loan against Godrej Tranquil, whereas the repayments for the second loan will commence in FY2023. Around Rs. 239 crore out of the estimated project cost of Rs. 1,116 crore is pending to be spent. Godrej Nest's construction is at an intermediate stage. Timely execution of the projects, along with the realisation of the balance amount from customers, will remain a key rating monitorable.

The rating also considers the muted estimated profitability of the project (3%) due to the large fees being paid to the development partner, GPL, and the elevated financial costs of the project because of the higher borrowing rates and initial slippages in implementing the project's slum rehabilitation phase.

The rating also factors in the geographical concentration risks as the company's current projects and the Group's remaining development potential are at Kandivali (East) in Mumbai. The Group remains exposed to the cyclicality inherent in the real estate sector for ongoing projects and launches. ICRA notes that the Group has large expansion plans under the slum-rehabilitation scheme and the same could expose it to project, funding and marketing risks, even though the same may get executed in other special purpose vehicles (SPVs).

The Stable outlook reflects the healthy sales bookings for the ongoing projects, which along with the undrawn credit limits are expected to support SMPL's cash flows in the near to medium term.

[1] *Committed receivables/ (pending costs+ debt outstanding)*

Key rating drivers and their description

Credit strengths

Established track record of promoter Group: The promoters – Shivam Group – have an established track record in Mumbai's real estate business. It has developed around 1 million sq ft in the Sion, Matunga and Kandivali regions across residential and commercial segments. Aditya Birla Real Estate Opportunities Fund (ABREOF), one of the shareholders in SMPL, is being provided an exit through a demarcation of the area being developed. ABREOF will also receive an additional pay-out (of up to Rs. 20 crore) upon project completion and subject to the availability of the requisite surplus.

Healthy cash flow adequacy ratio: The cash flow adequacy ratio of SMPL's ongoing projects was comfortable at 84% as on December 31, 2021, reflecting relatively low dependence on incremental sales bookings. Against the pending cost of Rs. 239 crore and debt outstanding of Rs. 283 crore (including an ECLGS drawn down of Rs.49.46 crore against the sanctioned amount of Rs. 52.82 crore), the company had receivables of Rs. 440 crore as on December 31, 2021. Further, the cash flows are expected to remain healthy with steady project execution.

Tie-up with Godrej enables strong brand positioning and healthy bookings: The company has a development management agreement with GPL, one of India's largest real estate developers with pan-India presence and a strong brand value, for the ongoing projects. The cumulative bookings are satisfactory with sales booking of 85% of the total saleable area of 0.92 million sq ft. GPL is entitled to 8-9% of the collections from the project, in addition to a fixed cash payout for its services, including design, marketing, project monitoring and general and financial management.

Credit challenges

Execution and funding risks: Though ~85% of the project area has been booked, SMPL continues to be exposed to execution and funding risks due to its dependence on timely collections against the construction milestones to meet the pending construction cost and debt obligations. At present, the construction of Godrej Tranquil is in the completion stages, with the structural work complete and the finishing work going on. However, the construction of Godrej Nest is at an intermediate stage, with the 15th slab completed for three of the four towers. Principal repayments commenced in FY2022 for the loan against Godrej Tranquil, whereas repayments for the second loan will commence in FY2023, though healthy receivables and tie-up with GPL provide comfort.

Muted project surplus due to large fees paid to GPL: The project has a muted profitability (3%) due to the large fees being paid to the development partner, GPL, and the elevated financial costs of the project because of the high borrowing costs and the initial slippages in implementing its slum rehabilitation phase.

Geographical concentration risks: The company remains exposed to geographical concentration risks as the current projects and majority of the Group's future development potential are in Mumbai. The Group remains exposed to the cyclicality inherent in the real estate sector for the ongoing projects and launches.

Liquidity position: Adequate

The liquidity position of the company is adequate on the back of healthy committed receivables and cash flow adequacy ratio. SMPL had unencumbered cash and equivalents of Rs. 4.35 crore and undrawn bank lines of Rs. 83 crore as on December 31, 2021, providing flexibility in case of any cash flow mismatches. Further, ICRA expects the company to generate adequate cash flows, going forward, with limited reliance on incremental debt draw-down.

Rating sensitivities

Positive factors – ICRA may upgrade the rating if there is any significant increase in the scale of operations and business diversification, along with a sustained reduction in leverage.

Negative factors –Pressure on the rating could arise if the cash flow from operations is lower-than-expected because of subdued collections, major cost overruns or any significant delay in completion, leading to a deterioration in the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Shivam Megastructures Private Limited (SMPL) is a part of the Shivam Group of companies, whose flagship entity is Shivam Developers, a partnership firm. SMPL is promoted by the Shah, Chheda and Jani families, with interests in container freight station (CFS), logistics, petrol pumps and automobile dealership business in western India. Aditya Birla Real Estate Opportunities Fund (ABREOF), one of the shareholders in SMPL, is being provided an exit through a demarcation of the area being developed and it will also receive an additional pay-out (of up to Rs. 20 crore) upon project completion, subject to the availability of the requisite surplus. In the real estate sector, the Group has been involved in re-development projects under the schemes promoted by Maharashtra Housing & Area Development Authority (MHADA) in the Matunga and Kandivali regions of Mumbai. The Group has so far completed developing ~1 million sq. ft. area in Mumbai. At present, it is developing land admeasuring ~17 acres with a total sale potential of ~3.45 million sq. ft. at Kandivali (East) to implement a slum rehabilitation scheme. It intends to develop this land in four different phases and is presently developing Phase I (Godrej Tranquil & Godrej Nest) with a total sale potential of ~0.94 million sq. ft. in a DM arrangement with GPL.

Key financial indicators:

SMPL (Standalone)	FY2019	FY2020	FY2021
Operating Income (OI; Rs. crore)	110.0	191.0	186.5
PAT (Rs. crore)	3.5	1.6	1.0
OPBDIT/OI (%)	1.2%	1.8%	1.7%
PAT/OI (%)	3.2%	0.8%	0.5%
Total Outside Liabilities/Tangible Net Worth (times)	88.0	70.4	62.1
Total Debt/OPBDIT (times)	292.5	118.0	130.6
Interest Coverage (times)	--	--	--

Source: *Company, ICRA estimates; PAT: Profit After Tax, OPBDIT: Operating Profit Before Depreciation, Interest and Tax*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2022)</th><th colspan="3">Chronology of Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding as on December 31, 2021 (Rs. crore)</th><th>Date & Rating</th><th>Date & Rating in FY2021</th><th>Date & Rating in FY2020</th><th>Date & Rating in FY2019</th></tr>
<tr><th>Mar 11, 2022</th><th>Jan 21, 2021</th><th>-</th><th>-</th></tr>
<tr><td>Term Loans</td><td>Long-term</td><td>360.00</td><td>227.17</td><td>[ICRA]BBB (Stable)</td><td>[ICRA]BBB (Stable)</td><td>--</td><td>--</td></tr>
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Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Aug-18	-	FY 2026	360.00	[ICRA]BBB (Stable)

Source: *Company data*

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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