

March 21, 2022 ^{Revised}

Kolte-Patil Developers Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Term Loans	196.0	[ICRA]A+ (Positive); assigned
Long Term- Overdraft	115.0	[ICRA]A+ (Positive); assigned
Proposed Term Loans	162.0	[ICRA]A+ (Positive); assigned
Total	473.0	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating factors in Kolte-Patil Developers Limited's (KPDL) healthy track record of over 30 years and the strong brand name in Pune, underpinned by over 20 million square feet (mn sq ft) of deliveries till date. This is reflected in the strong saleability of the projects (Rs. 1,238 crore of pre-sales in 9M FY2022 compared to Rs. 1,201 crore in FY2021) and the healthy collections (Rs. 1,074 crore in 9M FY2022 compared to Rs. 1,128 crore in FY2021). As on November 30, 2021, KPDL has 13.2 mn sq ft of area under development, of which 10.2 mn sq ft (77% of launched area) has been sold. The future launch pipeline has 7.0 mn sq ft¹ under approval stage and 15.8 mn sq ft development potential in the available land bank, located largely in Pune.

The rating also factors in the healthy financial risk profile of KPDL, reflected in its comfortable profitability, low debt levels and comfortable debt coverage indicators. The debt level of Rs. 467 crore² as on December 31, 2021 (Rs. 665 crore as on March 31, 2021) is low compared to the receivables from the sold area of around Rs. 1,500 crore. KPDL has comfortable leverage with total debt/net working capital³ of around 60% as on September 30, 2021; going forward, the total debt/cash flow from operations (TD/CFO) is expected remain comfortable at below 3 times. KPDL is currently targeting to close new business development deals with a saleable potential of around 10 mn sq ft, which will be essential to build the project pipeline. ICRA expects these acquisitions to be largely funded through internal accruals and/or through institutional investors and hence, no major increase in debt is anticipated. In the past, the company has tied up with institutional investors to acquire land or monetise inventory through bulk sale transactions.

The rating is, however, constrained by the moderate scale of operations and the geographically concentrated portfolio with significant dependence on Pune's real estate market. Nearly 67% of KPDL's pre-sales in 9M FY2022 were generated in Pune, with the balance from the Mumbai (26%) and Bengaluru (7%) markets. Moreover, around 97% of the future development potential from the existing land bank is in Pune, which enhances geographical concentration. However, ICRA notes KPDL's presence across micro-markets and price segments in Pune as well as the management's target to limit dependence on the Pune market to 60-65%.

Further, the company is exposed to the cyclicity in the residential real estate segment. The portfolio is exposed to moderate funding risk with a receivable cover {receivables/ (pending cost + debt outstanding)} for the portfolio at around 65% as on November 30, 2021.

¹ Excluding projects under development management (DM) model

² Total debt as on December 31, 2021 includes Rs. 101 crore (Rs. 190 crore as on March 31, 2021) pertaining to optionally convertible debentures (OCDs)/ optionally convertible redeemable preference shares (OCRPS)/ non-convertible debentures (NCDs), majorly subscribed by institutional investors, where there are no fixed committed repayment obligations on KPDL

³ Net Working Capital = Inventory (work-in-progress and finished goods) – customer advances

The Positive outlook on the rating reflects ICRA's belief that the company would improve its scale of operations in the near-to-medium term through ongoing and ready-to-launch projects and new additions to the pipeline of projects, while maintaining a low leverage.

Key rating drivers and their description

Credit strengths

Established track record in real estate development in Pune – KPDL, incorporated in 1991, has delivered over 50 projects with saleable area of more than 20 mn sq ft since inception. The Group has a demonstrated track record of timely project delivery and healthy saleability across majority of its projects. Over the last one decade, the Group has expanded its presence beyond its home market, i.e., Pune (Maharashtra), through development of projects in Mumbai (Maharashtra) and Bengaluru (Karnataka). As on December 31, 2021, KPDL has a project portfolio of ~27 mn sq ft, comprising under-execution projects of 2.5 mn sq ft (unsold), approval stage projects of 7.0 mn sq ft, land bank with development potential of 15.8 mn sq ft and projects under DM agreement of 1.97 mn sq ft (at various stages of development).

Comfortable sales and execution progress – KPDL's ongoing portfolio has demonstrated comfortable sales and execution progress at 77% and 61%, respectively, till November 30, 2021. The aggregate collections/sales value is also healthy at 75% for the portfolio. The aggregate years-to-sell (YTS; based on last four quarters) for the portfolio is around one year, indicating the healthy saleability of the current inventory.

Healthy financial risk profile – ICRA notes that the profitability across all the ongoing projects is healthy. Further, KPDL's demonstrated ability to upfront the collections through healthy sales at the launch of any project reduces the dependence on debt to fund the projects. This, in turn, is reflected in the low debt level and comfortable debt coverage indicators. Going forward, the total debt/cash flow from operations (TD/CFO) is expected remain comfortable at below 3 times. KPDL is currently targeting to close new business development deals with a saleable potential of around 10 mn sq ft, which will be essential to build the project pipeline. ICRA expects these acquisitions to be largely funded through internal accruals and/or and hence, no major increase in debt is anticipated.

Credit challenges

Moderate scale of operations – In FY2019, KPDL reported the highest area sales at 2.7 mn sq ft. The sales volume was tepid in the following years (2.5 mn sq ft in FY2020 and 2.1 mn sq ft in FY2021) on account of Covid-19 and lack of launches in FY2020. The sales volume in FY2022 is expected to grow above FY2020 levels as sales in 9M FY2022 were 1.93 mn sq ft. As of December 31, 2021, the unsold area in the ongoing portfolio was 2.5 mn sq ft and thus, the launch of fresh projects would be important to maintain the scale of operations. The Group has a launch pipeline of nearly 5 mn sq ft to be launched in the next 12 to 18 months. The Group's ability to tie up/acquire projects beyond the current pipeline would be essential to maintain the future revenue visibility.

Geographically concentrated portfolio – As on December 31, 2021, nearly 75% of KPDL's unsold inventory (in terms of saleable area) was in Pune, while the remaining area was split equally between the Mumbai and Bengaluru markets. The geographic concentration risk is exacerbated by around 55% of Pune's unsold inventory being located in a single micro-market. ICRA, however, notes the healthy sales mix across the affordable, middle income, luxury and township projects.

Cyclicality in real estate business – Prior to the pandemic, the residential real estate sector had been adversely impacted by liquidity crunch, a high inventory overhang and subdued demand conditions. The pandemic-induced lockdowns moderated the industry's sales and collections in H1 FY2021 and Q1 FY2022; however, recovery in the operating metrics post the lockdowns has been strong for the established developers. The company's skewed geographic concentration could enhance the risk of cyclicality in demand trends.

Liquidity position: Strong

As on December 31, 2021, KPDL has unencumbered cash and liquid investment of Rs. 190 crore and undrawn bank lines of over Rs. 50 crore. In comparison, debt repayments of Rs. 71 crore and Rs. 163 crore are expected in Q4 FY2022 and FY2023, respectively. ICRA notes that only half of the debt repayment in FY2023 is scheduled, while the remaining half is linked to prepayments from the collections in the underlying projects. The liquidity profile is supported by the strong sales and collections from the ongoing projects. Further, the unleveraged projects and the land bank lend additional financial flexibility to KPDL.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a significant improvement in the scale of operations together with business diversification while maintaining a low leverage.

Negative factors – The rating may be downgraded, or the outlook may be revised to Stable in case of any significant increase in leverage levels coupled with slower-than-expected sales velocity and collections on a sustained basis. A specific credit metric that could lead to a downgrade includes TD/CFO (total debt/cash flow from operations) above 3.0 times on a sustained basis.

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	For arriving at the ratings, ICRA has taken a consolidated view of KPDL and Kolte Patil Integrated Townships Limited (KPITL), a 95% subsidiary of KPDL. Consolidated financials of KPDL and 26 subsidiaries/associate companies are considered for the analysis. (refer Annexure-2).

About the company

KPDL, incorporated in 1991, is a real estate developer with presence in Pune, Mumbai and Bengaluru. The Group has developed and constructed over 50 projects including residential complexes, integrated townships, commercial complexes and IT Parks covering a saleable area of over 20 million square feet across Pune, Mumbai and Bengaluru. KPDL, along with its subsidiaries and associates, is currently undertaking development of 13.2 mn sq ft of residential and commercial projects. As of November 30, 2021, 77% of the under-development area was sold. Out of the ongoing projects, 5.2 mn sq ft of area under-development is located in Life Republic Township located in Pune, Maharashtra.

Key financial indicators

KPDL Consolidated	FY2020 (Audited)	FY2021 (Audited)	9M FY2022 (Unaudited)
Operating Income (Rs. crore)	1,129.5	691.7	741.4
PAT (Rs. crore)	99.7	-3.8	66.4
OPBDIT/OI (%)	20.7%	9.0%	19.7%
PAT/OI (%)	8.8%	-0.6%	9.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.9	3.2	-
Total Debt/OPBDIT (times)	3.2	11.0	2.4*
Interest Coverage (times)	2.9	0.9	3.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note: Amount in Rs. crore; All calculations are as per ICRA Research; *based on gross debt as reported in Q3 FY2022 results presentation Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in	
				Mar 21, 2022	FY2021	FY2020	FY2019
1 Fund Based Term loan	Long-term	196.0	219.0	[ICRA]A+ (Positive)	-	-	-
2 Overdraft	Long-term	115.0	-	[ICRA]A+ (Positive)	-	-	-
3 Proposed Term Loans	Long-term	162.0	-	[ICRA]A+ (Positive)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based TL	Simple
Long Term- Overdraft	Simple
Proposed Term Loans	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan-I	FY2021	-	FY2026	8.0	[ICRA]A+ (Positive)
-	Term Loan-II	FY2021	-	FY2027	45.0	[ICRA]A+ (Positive)
-	Term Loan-III	FY2021	-	FY2027	18.0	[ICRA]A+ (Positive)
-	Term Loan-IV	FY2022	-	FY2027	7.0	[ICRA]A+ (Positive)
-	Term Loan-V	FY2019	-	FY2024	47.0	[ICRA]A+ (Positive)
-	Term Loan-VI	FY2021	-	FY2026	27.0	[ICRA]A+ (Positive)
-	Term Loan-VII	FY2020	-	FY2024	44.0	[ICRA]A+ (Positive)
-	Overdraft-I	FY2021	-	FY2023	50.0	[ICRA]A+ (Positive)
-	Overdraft-II	FY2022	-	FY2024	65.0	[ICRA]A+ (Positive)
-	Proposed Term Loans	-	-	-	162.0	[ICRA]A+ (Positive)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	KPDL's Ownership	Consolidation Approach
Kolte Patil Developers Limited (KPDL)	-	Full Consolidation
Kolte Patil Integrated Townships Limited	95.00%	Full Consolidation
Tuscan Real Estate Private Limited	100.00%	Full Consolidation
Kolte-Patil Real Estate Private Limited	100.00%	Full Consolidation
Regenesi Facility Management Company Private Limited	100.00%	Full Consolidation
Snowflower Properties Private Limited	100.00%	Full Consolidation
Kolte-Patil Properties Private Limited	100.00%	Full Consolidation
Sylvan Acres Realty Private Limited	100.00%	Full Consolidation
Ankit Enterprises	75.00%	Full Consolidation
Kolte-Patil Homes	60.00%	Full Consolidation
KP-Rachana Real Estate LLP%	50.00%	Full Consolidation
Bouvardia Developers LLP	100.00%	Full Consolidation
Carnation Landmarks LLP	99.00%	Full Consolidation
KP-SK Project Management LLP	55.00%	Full Consolidation
Regenesi Project Management LLP	75.00%	Full Consolidation
Bluebell Township Facility Management LLP	95.00%	Full Consolidation
Kolte-Patil Lifespaces Private Limited	100.00%	Full Consolidation
KPE Private Limited	100.00%	Full Consolidation
Kolte Patil infratech DMCC	100.00%	Full Consolidation
Kolte-Patil Services Private Limited	100.00%	Full Consolidation
Kolte-Patil Foundation	100.00%	Full Consolidation
Kolte-Patil Global Private Limited	100.00%	Full Consolidation
Kolte-Patil Planet Real Estate Private Limited	50.00%	Full Consolidation
Green Olive Venture	100.00%	Full Consolidation
Corolla Gulmohar	100.00%	Full Consolidation
DMK Infrastructure Private Limited	50.00%	Full Consolidation
Amco Landmarks Realty India	36.00%	Full Consolidation

Source: KPDL annual report FY2021

Corrigendum

Document dated March 21, 2022 has been corrected with revision as detailed below:

- “Key financial indicators”, Pg 4: Interest Coverage for 9M FY2022 (Provisional) corrected to 3.5 times.

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Mathew Kurian Eranat
+91 80 4332 6415
mathew.eranat@icraindia.com

Shreekiran Rao
+91 22 6114 3469
shreekiran.rao@icraindia.com

Sandhya Negi
+91 20 6606 9925
sandhya.negi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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