

Press Release

TARC Limited

April 13, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	1330.00	ACUITE BB+ Stable Reaffirmed Negative to Stable	-
Non Convertible Debentures (NCD)	70.00	Provisional ACUITE BB+ Stable Reaffirmed Negative to Stable	-
Total Outstanding Quantum (Rs. Cr)	1400.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BB+ (read as ACUITE Double B plus)**' on the Rs.1330.00 crore Non-Convertible Debentures of TARC Limited (TARC). The outlook has been revised from '**Negative**' to '**Stable**'.

Further, Acuite has reaffirmed its long-term rating of '**Provisional ACUITE BB+ (read as Provisional ACUITE Double B plus)**' on the Rs. 70 Cr. Proposed NCD of TARC Limited (TARC). The outlook has been revised from '**Negative**' to '**Stable**'.

The rating on the proposed Rs. 70 Cr. NCDs is provisional and the final rating is subject to the following documentation requirements:

1. Receipt of the executed trust deed
2. Receipt of the final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions
3. Legal opinion on the transaction, if applicable
4. No due certificate from the existing lender or any document confirming the repayment of existing loan

Rationale for the rating reaffirmed and revision in outlook

The rating takes into account extensive experience of the management and established presence of TARC in the real estate market in the NCR and Delhi region. The rating also draws comfort from the improvement and adequate liquidity position of the company marked by takeover of existing loans from issuance of NCDs.

The revision in outlook reflects measures undertaken by the management to improve the internal controls to avoid procedural lapses. The company as on date has complied with the Listing Obligations and Disclosure Rules. The revision in outlook also reflects improvement in business risk profile reflected by healthy cash inflows through new sales bookings and government receivables for land acquisitions. Further, company has also prepaid the interest coupon payment of issued NCDs falling due in March 2023 in two tranches i.e. in Dec 13, 2022 (along with premium) and Mar 17, 2023.

The timely commencement and completion of key real estate projects of the company along with steady cash inflows from these projects, government receivables and timely repayment of debt obligations will continue to remain a key rating sensitivity going ahead. Also, the management's compliance towards regulations will continue to remain a key rating monitorable over the medium term.

About Company

Delhi based TARC Limited is a Public Limited Company incorporated in the year 2016. The Company is engaged in the real estate development business and is primarily pursuing residential projects in the NCR and Delhi region. Pursuant to the Order of the Hon'ble NCLT Chandigarh on 24th August 2020 approving the demerger, the Company emerged as the resulting Company under the name and style of Anant Raj Global Limited, which was subsequently renamed as TARC Limited. TARC's current Chairman is Mr. Anil Sarin and the day to day operations of the Group are managed Mr. Amar Sarin – Managing Director and CEO.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuite has considered the consolidated financial and business risk profile for TARC Limited. The list of entities consolidated in the financial is given below in the Annexure 2 and together these are referred to as the Group or TARC.

Key Rating Drivers

Strengths

Extensive experience of the management and established position of the company in NCR real estate market

The Chairman along with the Managing Director and CEO have an extensive experience in the real estate market in the NCR region. Mr. Anil Sarin, Chairman has been part of the industry for over four decades. TARC has an established position in the industry which is also reflected in the large land bank and history of many completed projects. The company has a land bank of ~550+ acres in both Delhi and NCR region. Some of the key ongoing and upcoming projects of TARC includes TARC Tripundra, Patel Road Residency and TARC Ishva. The company has also successfully completed TARC Maceo project with 16 lakh sq. ft. of saleable area.

Acuite believes that TARC will likely to continue receives benefit from extensive experience of the management and established presence in the real estate segment.

Improvement in liquidity position

The company has issued NCDs worth of Rs.1330 Cr. in April 2022 and as per their fund utilization plans Rs.1330 Cr. was used to take over all TARC's all existing debt & other liabilities identified in under the terms of the issued NCDs and the remaining was used as construction finance for their projects. The company had an outstanding amount of ~Rs.1155 Cr. from their lenders as on April 29, 2022 against its various projects. The company's primary source of revenue was through the lease rentals from its various commercial properties. TARC's liquidity had been adversely impacted on account of the spread of Covid and the subsequent lockdowns which affected its lease rentals. This has resulted in significantly lower cash flows from majority of its leased properties against which a significant proportion of debt remains outstanding. The NCD investors will have access to cashflows from the all the projects and properties charged to the current lenders. According to the issued terms, the NCD will have only coupon payment on every 31 March of the year @6% p.a. and no principal till June 2023. Also, the company has prepaid the interest payment falling due in March 2023 in two tranches i.e. In December 2022 and March 2023 reflecting improvement in liquidity position. While the projects will still be exposed to demand risk, Acuite believes that TARC's liquidity position is further expected to improve over the medium term on account of healthy cash inflows through consistent new sales bookings and expected government receivables.

Comfort derived from the structure of the issued NCDs

The NCDs issued have access to all properties and projects of TARC under the existing lenders, post the refinancing exercise. All the cash flows from the existing project or any cash flows from sale of properties or receivables from the land acquisition transactions will be received in an account controlled by the debenture trustees. The following sources of funds have been identified for the repayment; a) Cash flows from the underlying projects. b) Inflows on account of part payment of certain land acquisition transactions. c) In case of any delay from the aforementioned cash flows or material delay in project progress which might result in cash flow mismatch, repayments to be completed through sale of identified assets, as per the terms of the NCDs. Any such asset sale process will be initiated prior to the repayment dates.

Weaknesses

Project Completion Risk

TARC's project and properties mortgaged to existing lenders have been mortgaged against the issued NCDs. The cash flows from these projects will be the primary source of the repayment for the NCDs, beside proceeding from asset monetization. TARC Tripundra Project and Patel Road Residency Projects are the key ongoing projects. Out of the two, the TARC Tripundra project was launched in Oct 2022, which is in progress. For Patel Road Project, the demolition of the of existing structure is completed and construction is expected to start. The issued NCDs also include Rs.70 Cr. as construction finance for the mentioned projects which have mitigated the funding risk of the projects to some extent. For Maceo project the construction is completed and 100% inventory is sold. Besides the Rs. 70 crore construction finance, cashflow from Maceo project will also be used for the completion of the above mentioned two key projects. However, the projects are still exposed to execution and demand risk. These are mitigated to some extent on account of the favourable location of the projects in the NCR region and TARC's extensive experience in real estate development in the region. TARC Tripundra is a luxury residential project with total saleable area of 481000 sq. ft. which got launched in Oct 2022 and construction work is going on. Total project cost is estimated to be in the range of Rs. 200 - 250 Cr. RERA approval is also in place for the project and its scheduled completion is by FY2025. Patel Road project involves demolition of the current Moments Mall located near Kirti Nagar Metro Station and construction of a residential complex. The project is expected to launch by in the near term and demolition of the existing mall is underway. The total saleable area is ~1800000 sq. ft. with estimated project cost in the range of Rs. 900-1000 Cr. There are other projects mortgaged to the issue however these are smaller relative to the key projects mention above and are currently in the planning stage. The timely commencement and completion of the key projects will remain a rating monitorable for Acuité.

Susceptibility to real estate sector cyclicity and regulatory risks

The real estate industry in India is highly fragmented with most of the real estate developers, having a city specific or region - specific presence. The risks associated with real estate industry are cyclical in nature of business (drop in property prices) and interest rate risk, among others, which could affect the operations. All players in the real estate sector are exposed to the risk of volatile prices on account of frequent demand supply mismatches in the industry. Given the high degree of financial leverage, the high cost of borrowing inhibits the real estate developers' ability to significantly reduce prices to augment sales growth. However, the unsold inventory risk is mitigated in TARC's case, given the location of its key projects in the NCR region where unsold inventory remains low. Further, the industry is exposed to regulatory risk, which is likely to impact players such as TARC, thereby impacting its operating capabilities.

Non-compliance of regulations from management in the past

The company has recently faced adverse regulatory action from SEBI towards non-compliance of regulations. SEBI has imposed a penalty of Rs. 0.18 Cr. in its order dated November 18, 2022 for the 81 instances of non-compliance with the Listing Obligations and Disclosure Rules related to declaration of past defaults. Although the quantum of penalty is not expected impact the financial risk profile of TARC, the non-disclosure of past defaults as per the regulation emphasizes - the risk of lapses in process and internal controls from the

management of the company. Acuité believes that prevention of any further lapses going ahead will remain a key rating sensitivity.

ESG Factors Relevant for Rating

Employee health & safety management is of primary importance to the construction industry given the nature of operations. Additionally, product quality and safety is of utmost significance. Human rights concerns such as forced labor are crucial considering the exploitative industry practices. Furthermore, responsible procurement and community relations are key influencing factors. The inherent material risk to the construction industry includes releasing toxic greenhouse gases and delivering a green building structure by utilizing clean technology. Factors such as ethical business practices, legal and regulatory compliance hold utmost significance in the construction industry, considering the frequency of litigations. Other issues include management compensation and Board oversight.

Rating Sensitivities

- Commencement of key real estate projects as per the expected timeline without significant delay
- Timely receipt of amount receivable from the Government from land acquisition transactions without significant delay
- Any other adverse action from the regulators and non-compliance of regulations

Material Covenants

- Loan to Value (LTV) (value of all mortgaged properties) ratio at all times after the first deemed date of allotment will not be greater than 50 percent; LTV ratio will be tested quarterly
- Event milestones related to cash inflows have been decided in the term sheet and any non-occurrence of event will trigger an asset sale event and cash flow from the asset sale will be used to cover the repayment obligation
- Further operational milestones have also been decided the term sheet and any failure to meet the milestones as per decided time line will also trigger an event of default

Liquidity Position Adequate

Acuite expects TARC's liquidity profile to remain adequate post the successful issue of the NCDs on account of adequate cushion between expected cash surplus and expected repayment obligations. TARC is expected to generate cash surplus in the range in of Rs. 500 - 700 Cr. in FY2023-24 against no principal repayment obligation in FY2023 and ~Rs. 300 Crore in FY2024. The expected cash inflow includes receivables from land acquisition transaction in the range of Rs.150 Cr.

Outlook: Stable

Acuité's revision in outlook to 'Stable' from 'Negative' takes into account the measures undertaken by the management to improve the internal controls to avoid procedural lapses. The company as on date has complied with the Listing Obligations and Disclosure Rules. It also takes into account the improvement in liquidity position and business risk profile of the company and prepayment of interest payments of NCDs made by the company before the due date of March 2023. Further, the outlook may be revised to 'Positive' in case of improvement in cash flows from respective projects and further improvement in liquidity position of the company. Conversely, the outlook may be revised to 'Negative' in case of delay in project completions and lower than expected cash flows from the projects, government receivables for land acquisition and sustained period of no regulatory actions.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	250.55	190.96
PAT	Rs. Cr.	(232.76)	6.17
PAT Margin	(%)	(92.90)	3.23
Total Debt/Tangible Net Worth	Times	1.11	1.02
PBDIT/Interest	Times	(1.56)	1.44

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any Other Information

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

1. Lack of third party monitoring of compliance in absence of executed trust deed and no finalized terms in absence of final term sheet
2. In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

The rating would be equated to the standalone rating of the entity: ACUITE BB+ / Stable.

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued: The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Real Estate Entities: <https://www.acuite.in/view-rating-criteria-63.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Nov 2022	Proposed Non Convertible Debentures	Long Term	70.00	ACUITE Provisional BB+ Negative (Downgraded from ACUITE Provisional BBB- Stable)
	Non Convertible Debentures	Long Term	200.00	ACUITE BB+ Negative (Downgraded from ACUITE BBB- Stable)
	Non Convertible Debentures	Long Term	1130.00	ACUITE BB+ Negative (Downgraded from ACUITE BBB- Stable)
04 May 2022	Proposed Non Convertible Debentures	Long Term	70.00	ACUITE Provisional BBB- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	200.00	ACUITE BBB- Stable (Assigned)
	Non Convertible Debentures	Long Term	1130.00	ACUITE BBB- Stable (Assigned)
11 Apr 2022	Proposed Non Convertible Debentures	Long Term	1400.00	ACUITE Provisional BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	INE0EK907019	Non-Convertible Debentures (NCD)	29 Apr 2022	6	29 Apr 2027	Simple	1130.00	ACUTE BB+ Stable Reaffirmed Negative to Stable
Not Applicable	INE0EK907027	Non-Convertible Debentures (NCD)	29 Apr 2022	6	31 Dec 2023	Simple	200.00	ACUTE BB+ Stable Reaffirmed Negative to Stable
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple	70.00	Provisional ACUTE BB+ Stable Reaffirmed Negative to Stable

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt Support)

Sr. No.	Company Name	Type
1	TARC Limited	Parent Company
2	Anant Raj Infrastructure Limited	Subsidiary Company
3	BBB Realty Limited	Subsidiary Company
4	Echo Buildtech Limited	Subsidiary Company
5	Elevator Promoters Limited	Subsidiary Company
6	Elevator Properties Limited	Subsidiary Company
7	Fabulous Builders Limited	Subsidiary Company
8	Gadget Builders Limited	Subsidiary Company
9	Grand Buildtech Limited	Subsidiary Company
10	Green View Buildwell Limited	Subsidiary Company
11	High Land Meadows Limited	Subsidiary Company
12	Jubilant Software Services Limited	Subsidiary Company
13	Kalinga Realtors Limited	Subsidiary Company
14	Park Land Construction and Equipments Limited	Subsidiary Company
15	TARC Green Retreat Limited	Subsidiary Company
16	TARC Projects Limited	Subsidiary Company
17	Townsend Construction and Equipments Limited	Subsidiary Company
18	Travel Mate India Limited	Subsidiary Company
19	Elegant Estates Private Limited	Subsidiary Company
20	Elegant Buildcon Private Limited	Subsidiary Company
21	Elevator Buildtech Private Limited	Subsidiary Company
22	Grandpark Buildtech Private Limited	Subsidiary Company
23	Grand Park Estates Private Limited	Subsidiary Company

24	Greenline Buildcon Private Limited	Subsidiary Company
25	Greenline Promoters Private Limited	Subsidiary Company
26	Hemkunt Promoters Private Limited	Subsidiary Company
27	Kalinga Buildtech Private Limited	Subsidiary Company
28	Novel Buildmart Private Limited	Subsidiary Company
29	Novel Housing Private Limited	Subsidiary Company
30	Oriental Meadows Limited	Subsidiary Company
31	Bolt Properties Limited	Subsidiary Company
32	Rapid Realtors Private Limited	Subsidiary Company
33	Greenwood Properties Private Limited	Subsidiary Company
34	Park Land Developers Private Limited	Subsidiary Company
35	Park View Promoters Private Limited	Subsidiary Company
36	Roseview Buildtech Private Limited	Subsidiary Company
37	Roseview Properties Private Limited	Subsidiary Company
38	Sand Storm Buildtech Private Limited	Subsidiary Company
39	Suburban Farms Private Limited	Subsidiary Company
40	TARC Buildtech Private Limited	Subsidiary Company
41	TARC Estates Private Limited	Subsidiary Company
42	TARC Properties Private Limited	Subsidiary Company
43	Twenty First Developers Private Limited	Subsidiary Company
44	Ankur Buildcon Limited	Step Down Subsidiary
45	Capital Buildcon Limited	Step Down Subsidiary
46	Capital Buildtech Limited	Step Down Subsidiary
47	Carnation Buildtech Limited	Step Down Subsidiary
48	Gagan Buildtech Limited	Step Down Subsidiary
49	Greatways Buildtech Limited	Step Down Subsidiary
50	Krishna Buildtech Limited	Step Down Subsidiary
51	Monarch Buildtech Limited	Step Down Subsidiary
52	Moon Shine Entertainment Limited	Step Down Subsidiary
53	Oriental Promoters Limited	Step Down Subsidiary
54	Papillon Buildtech Limited	Step Down Subsidiary
55	Papillon Buildcon Limited	Step Down Subsidiary
56	Rising Realty Limited	Step Down Subsidiary
57	West Land Buildcon Limited	Step Down Subsidiary
58	A-Plus Estates Private Limited	Step Down Subsidiary
59	Spiritual Developers Private Limited	Step Down Subsidiary
60	Ganga Bishan & Co.	Partnership Firm Where Company is a Partner
61	Asylum Estates LLP	LLPs Where Subsidiary is a Partner
62	Gagan Promoters LLP	LLPs Where Subsidiary is a Partner
63	Niblic Greens Hospitality Private Limited	Associate Company

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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