TARC Ltd — 26 Dec 2024 Credit Rating Summary

Section	Details
Agency	Acuité Ratings & Research Limited
Rating Change	**ACUITE BB+** (Reaffirmed)
Outlook (Current vs Previous)	**Rating Watch with Negative Implications** (Current) vs **Stable** (Previous)
Key Drivers of Change	1. **SEBI Forensic Audit:** SEBI appointed auditor for FY21–FY23 financials; concerns over disclosures detrimental to investors. (High Governance Risk) 2. **Project Execution Delays:** TARC Kailasa delayed by 3–4 months; 63A Gurugram delayed by 5+ months. (Cash flow timing risk) 3. **Sharp Revenue De-growth:** Operating income dropped ~42% from ₹193.54 Cr (FY23) to ₹111.45 Cr (FY24). 4. **Severe Interest Coverage Stress:** PBDIT/Interest ratio crashed to **0.42x** in FY24 (vs 1.21x in FY23), indicating EBITDA does not cover interest costs.
Rated Instruments	**Non-Convertible Debentures (NCDs):** ₹130.00 Cr
Key Observations	• **Strengths:** Land bank of ~550 acres in Delhi-NCR; "TARC Kailasa" Tower 1 sold out within 3 months of launch. • **Liquidity:** Pre-paid interest in Dec '22, Mar '23, and Mar '24; redeemed ₹200 Cr NCDs in two tranches. • **Weakness:** Heavy reliance on asset monetization/land receivables (₹150 Cr) to meet debt obligations. • **Financials:** Swung from ₹20.36 Cr PAT profit (FY23) to **₹77.04 Cr Net Loss** (FY24). • **Operational Risk:** Projects exposed to high demand/cyclicality risk in the luxury segment. • **Debt Profile:** Debt/Tangible Net Worth (TNW) increased to **1.40x** due to net losses eroding equity.
Investor Impact	• **Growth:** Stalled by delays; shift from lease rental model to luxury residential sales creates lumpy cash flows. • **Leverage:** Increasing; negative PAT is eating into the capital base. • **Dilution/Refinancing Risk:** The SEBI forensic audit may severely restrict the company's ability to raise fresh debt or equity in the short term. • **Margins:** Deeply negative PAT margin (-69.13%) reflects high holding costs and construction overheads vs limited revenue recognition.
Agency / Cross Analysis	**Same Agency (June 2024 vs Dec 2024):** In June, Acuité maintained a 'Stable' outlook citing project traction. By December, the agency pivoted to **RWNI** solely due to the SEBI forensic audit announcement. • **Conclusion:** Significant **Deterioration** in credit quality. While project sales are healthy, the regulatory "Watch" overrides operational performance.
Final Inference	**Red Flag Signal:** Despite strong project sales (Kailasa), the **0.42x interest coverage** and **SEBI forensic audit** suggest a high risk of a liquidity crunch or governance-led de-rating. For equity investors, the potential for restatement of past financials and restricted market access are immediate threats.