

April 21, 2023

Mathapathi Constructions Private Limited: [ICRA]BB- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Proposed term loan	75.00	[ICRA]BB- (Stable); assigned
Total	75.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating of Mathapathi Constructions Private Limited (MCPL) factors in the experience of the promoters spanning over two decades in the residential real estate market in Bangalore having delivered 10 projects. The rating considers the favourable location of the ongoing project, Mathapathi Grand Field, in Gunjur, Bengaluru, encompassing 2.2 lakh sft which is expected to result in healthy sales post the launch of the projects. The project cost of Rs. 140.0 crore is likely to be funded by loans from promoters worth Rs. 65.0 crore, debt of Rs. 20.0 crore and the balance through customer advances. With limited external debt, the leverage as marked by net external debt/CFO remains is estimated to sustain below 1.5 times going forward.

The rating, is however, constrained by the modest scale of operations and moderate execution risk. The company has completed 48% of the project, which was largely funded by promoter loans. It is exposed to high market risk, given only 2% of the total area is sold as of December 2022. It intends to sell the units post completion of each apartment block. As a result, the project has modest cash flow adequacy of 5% over the pending cost. Further, the company is exposed to geographical concentration risk as the ongoing project is limited to the Bengaluru market. The rating factors in the vulnerability of its sales to any downturn in the real estate demand and stiff competition within the region from various established real estate developers.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that MCPL will benefit from favourable location of the ongoing project, which is expected to result in healthy sales post the launch of the projects.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in residential real estate – The company's promoters has over two decades of experience in the residential real estate market in Bengaluru, having delivered 10 projects covering 5.2 lakh sft of area.

Favourable project location – The current ongoing project, Mathapathi Grand Field, is located in Gunjur, near the Whitefield micro market. It is well connected to other micro markets of the city by road, which is likely to result in healthy sales post the launch of the projects. The project cost of Rs. 140.0 crore is expected to be funded by loans from promoters worth Rs. 65.0 crore, debt of Rs. 20.0 crore and the balance through customer advances. With limited external debt, the leverage as marked by net external debt/CFO remains low as of March 2023, which is estimated to sustain below 1.5 times going forward.

Credit challenges

Exposed to market and execution risks – MCPL's scale remains low with nascent stage of operation. At present, the company is executing one residential project, Mathapathi Grand Field, encompassing an area of 2.2 lakh sft. It has incurred around 48% of the project, which was largely funded by promoter loans, resulting in moderate execution risk. Further, the company is

exposed to marketing risk, as it has sold only 2% of the total saleable area on December 31, 2022. It intends to sell the units post completion of each apartment block. As a result, the project has modest cash flow adequacy of 5% over the pending cost.

Geographical concentration risks arising from presence only in Bengaluru market – All of the company’s ongoing projects are located in the Bengaluru market, which exposes it to the geographical concentration risk. MCPL faces stiff competition from other real estate developers in the competitive real estate market of Bengaluru.

Exposure to cyclicity in the real estate industry – The real estate sector is marked by a highly fragmented market structure because of the presence of a large number of regional players. In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which in turn render the company’s sales vulnerable to any downturn in demand

Liquidity position: Stretched

The company’s liquidity is stretched, marked by low cash balance as of March 2022. It is dependent on timely sales and collections to fund the balance project cost. MCPL had sanctioned debt of Rs. 20.0 crore and undrawn debt of Rs. 18.0 crore as of December 2022.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a significant and sustained increase in the sales and collections, along with improvement in the liquidity position and debt protection metrics.

Negative factors – Negative pressure on the rating could emerge in case of delays in project execution, slower-than-expected sales and collections or significant unbudgeted debt-funded investment leading to deterioration in liquidity and leverage position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodologies for real-estate entities
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Mathapathi Constructions Private Limited develops residential apartments. At present, the company is constructing one project, Mathapathi Grand Field, with a saleable area of 2,18,562 sft. It is promoted by Dr. M. B. Mathapathi, who has over two decades of experience in the residential real estate industry in Bengaluru and has completed 10 projects with a saleable area of 5,25,700 sft.

Key financial indicators (audited)

Not applicable as the first project in the company was launched in October 2022.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				April 21, 2023	-	-	-
1 Proposed term loan	Long term	75.0	0.0	[ICRA]BB- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Proposed 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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Proposed term loan	-	-	-	75.0	[ICRA]BB- (Stable)

Source: Company; loan is yet to be sanctioned

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

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

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Branches



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