

June 11, 2024

Foundations, Developers And Promoters: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	7.70	7.70	[ICRA]B (Stable); reaffirmed
Long-Term Unallocated	7.30	7.30	[ICRA]B (Stable); reaffirmed
Total	15.00	15.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Foundations, Developers and Promoters (FDP) considers the promoters' extensive experience of over two decades in the real estate industry, particularly in and around Mysore. The firm's asset-light policy, with projects developed under joint development agreements (JDA)/joint ventures (JV), limits the upfront capital requirement. Additionally, the favourable location of the projects in Mysore, with good inter-city connectivity and proximity to commercial establishments near Dattagali, Aregowdanahalli and Hootagalli, is expected to support the saleability of the projects.

The rating, however, continues to be constrained by the firm's modest scale of operations, which limits its operational and financial flexibility. The rating is constrained by the entity's exposure to market, execution and funding risks associated with upcoming projects. As on March 31, 2024, the firm's cash flow adequacy for its ongoing projects remains moderate at ~40%. Additionally, fund infusion by partners and debt tie-up for the upcoming projects, Silver Spring II, Dandikeri, Bogadi and Bugathalli, will be critical for the timely execution of these projects. The firm encounters a high geographical concentration risk with projects limited to the Mysore market. The real estate business is highly dependent on macroeconomic factors due to its cyclical nature, exposing the firm's sales to potential downturns in real estate demand.

The Stable outlook reflects ICRA's opinion that FDP will be able to improve its collections from the upcoming launches owing to its established position in the Mysore real estate market.

Key rating drivers and their description

Credit Strengths

Extensive experience of promoters in real estate industry – FDP's promoters have extensive experience of over two decades in real estate development in the Mysore market. They have developed ~0.98 million square feet (msf) of real estate space in Mysore.

Asset light policy with projects developed under JDA/JV, which limits upfront capital requirement – The firm primarily focuses on developing projects, on a JDA/JV basis with the landowners on a unit-sharing basis, which reduces the capital outlay for land investment.

Favourable Location of Projects- The favourable location of the projects in Mysore, with good inter-city connectivity and proximity to commercial establishments near Dattagali, Aregowdanahalli and Hootagalli, is expected to support the saleability of the projects.

Credit Challenges

Modest scale of operations – Notwithstanding the estimated improvement in collections to ~ Rs. 14.10 crore in FY2024 (PY: Rs. 9.9 crore), FDP’s scale of operations remains modest. At present, the firm is executing one residential project (Sirii) with a saleable area of 0.044 msf. Further, the firm has four planned launches covering a total area of ~0.29 msf over the next year.

High market and execution risks for ongoing and upcoming projects – Despite adequate sales for project Sirii, the firm is exposed to market risk for the balance saleable area. Further, the cash flow adequacy ratio is moderate at ~40% as on March 31, 2024. Additionally, fund infusion by the partners and debt tie-up for upcoming projects, Project Silver Spring II, Dandakeri, Bogadi and Bugathalli, will be critical for their timely execution.

Geographical concentration risks and exposure to cyclicity in the real estate industry – The firm is exposed to high geographical concentration risks, as its projects are confined to Mysore. The real estate sector is cyclical and marked by volatile prices and a highly fragmented market structure due to the larger number of regional players. In addition, being a cyclical industry, the real estate sector is highly dependent on macroeconomic factors, exposing FDP’s sales to potential downturns in demand and increased competition from various established players in the region.

Liquidity position: Stretched

The liquidity profile is stretched, with dependence on incremental sales and customer advances to meet the pending project cost and debt repayment obligations. The firm had Rs. 0.3 crore of cash and equivalents as of March 2024.

Rating sensitivities

Positive Factors- ICRA could upgrade FDP’s rating if there is an improvement in its scale of operations and profitability. Additionally, the rating could be upgraded if sales and collections for its upcoming projects are healthy on a sustained basis.

Negative factors – ICRA could downgrade FDP’s rating if there are subdued bookings or collections, significant delays in project completion or a significant increase in indebtedness leading to a weakening of its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty – Commercial/Residential/Retail
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Foundations, Developers and Promoters (FDP) was established in 2006 as a partnership firm. The firm primarily focuses on developing projects on a JV basis with the landowners on a unit-sharing basis, which limits upfront capital requirement. The firm has its primary presence in Mysore and, over the last 16 years, has completed ~0.98 msf of real estate development as of March 2024.

Key financial indicators (audited)

	FY2022	FY2023
Operating income (OI)	3.4	9.9
PAT	0.04	0.2
OPBDIT/OI	3.0%	12.3%
PAT/OI	1.1%	2.3%
Total outside liabilities/Tangible net worth (times)	7.0	3.3
Total debt/OPBDIT (times)	85.6	8.9
Interest coverage (times)	0.2	1.4

Source: Firm, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
								June 11, 2024
1 Term loans	Long term	7.70	4.05	[ICRA]B (Stable)	-	[ICRA]B (Stable)	[ICRA]B (Stable)	
2 Unallocated Limits	Long term	7.30	-	[ICRA]B (Stable)	-	[ICRA]B (Stable)	[ICRA]B (Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Unallocated	Not applicable

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
NA	Term loans	FY2022	NA	FY2025/FY2026	7.70	[ICRA]B (Stable)
NA	Unallocated limits	NA	NA	NA	7.30	[ICRA]B (Stable)

Source: Company

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

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