ICRA

August 16, 2023

Manglam Build-Developers Ltd: 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	53.98	127.65	[ICRA] BBB (Stable); reaffirmed
Long-term Fund-Based	3.46	0.00	-
Long-Term Unallocated	92.56	22.35	[ICRA] BBB (Stable); reaffirmed
Total	150.00	150.00	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation of Manglam Build-Developers Ltd (MBDL) reflects the Manglam Group's established track record of more than three decades in the real estate industry in Rajasthan, strong brand positioning in Jaipur (Rajasthan) and demonstrated project execution capabilities. The group has delivered more than 45 million square feet (msf) of residential/ commercial/plotted projects in various cities of Rajasthan. The group has witnessed healthy sale velocity in its ongoing projects with the group selling around 2.76 msf of area valued at Rs 707 crore in FY2023 as against 2.98 msf area for Rs 710 crore in FY2022. The collections are estimated to grow by 14%-16% YoY in FY2024. The cash flow adequacy ratio[1] has remained comfortable 86% as of March 2023 on the back of healthy sales, and reduction in the external debt outstanding debt. The external debt of the group has reduced from Rs 215 crore as of March 2022 to Rs 180 crore as of March 2023 (Rs 120 crore excluding LRD debt), the reduction in debt and improvement in inflows from the project has resulted in comfortable leverage position with Net Debt/CFO at 1.0x for FY2023 (PY: 1.2 times) and is expected to be in the range of 0.6-0.9 times in FY2024.

The rating is, however, constrained by the group's exposure to market risk for the under-construction projects as well as upcoming projects. The group is also exposed to geographical concentration risk, as the ongoing and upcoming projects are mostly located in Jaipur, increasing the dependence on a single micro-market for sales and revenue. The risk has further increased from the unsold inventory in the completed projects which is around 2.67 msf, where the sales velocity has been slow. Moreover, being a cyclical industry, the real estate business is highly dependent on macro-economic factors, which in turn render the company's sales vulnerable to any downturn in demand and competition within the region from various other developers. The extent of land investments, movement in sales, collections and leverage will remain a key rating sensitivity.

The stable outlook on the [ICRA] BBB rating reflects ICRA's opinion that the group will continue to benefit from its established track record and strong brand recall in the Jaipur real estate market, along with its comfortable leverage and cash flow adequacy ratio.

Key rating drivers and their description

Credit strengths

Long and established track record of the Group in real estate business in Rajasthan – The Group enjoys an established position and strong brand name in Rajasthan, particularly in Jaipur, with a diversified asset portfolio. Manglam Build Developers Pvt Ltd (MBDL) has a track record of over 30 years in the real estate sector, in Rajasthan. The group is currently developing 14 projects including residential, commercial and plotting projects. The Group also comprises multiple completed projects across residential, commercial and plots. The group has a strong in-house project execution capability, as demonstrated through completion of over 45 msf area.

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[1] *Cash flow adequacy ratio = Receivables from sold area/(pending cost plus external debt outstanding). Excluding the LRD debt of Saville Hospital and Research Centre Pvt Ltd.*

Comfortable cash flow adequacy ratio and improvement in leverage position – The cash flow adequacy ratio has remained comfortable 86% as of March 2023 on the back of healthy sales and reduction in the external debt outstanding debt. The external debt of the group has reduced from Rs 215 crore as of March 2022 to Rs 180 crore as of March 2023 (Rs 120 crore excluding LRD debt), the reduction in debt and improvement in inflows from the project has resulted in comfortable leverage position with Net Debt/CFO at 1.0x for FY2023 (PY: 1.2 times) and is expected to be in the range of 0.6-0.9 times in FY2024. Further, the borrowing cost for the group has reduced considerably over the past 3 years due to the shift from high-cost facilities availed from NBFCs to comparatively low-cost facilities from banks.

Healthy Sales velocity in FY2023, expected to continue in FY2024 – The group has witnessed healthy sale velocity in its ongoing projects with the group selling around 2.76 msf of area valued at Rs 707 crore in FY2023 as against 2.98 msf area for Rs 710 crore in FY2022. The collections are estimated to grow by 14%-16% YoY in FY2024.

Credit challenges

Exposure to marketing and geographical risks – The group is exposed to market risk for the under-construction project as well as for upcoming projects. The risk is further increased from the unsold inventory in the completed projects which is around 2.67 msf, where the sales velocity has been slow. The risks are heightened by the dependence on a single micro-market for sales and revenue.

Exposure to execution risks – The group is exposed to execution risk with 32% of the cost yet to be incurred as of March 2023. The group will be largely relying on customer advances for funding the construction costs.

Cyclicality in real estate sector – The real estate sector is cyclical in nature and is highly dependent on macro-economic factors, which in turn render the company's sales vulnerable to any downturn in demand and competition within the region from various established developers.

Liquidity position: Adequate

The liquidity position of the group remains adequate, as marked by cash and cash equivalents of Rs 35.7 crore as of July 2023. Further, the group has debt obligation of around Rs 66 crore which is likely to be adequately met through the expected cash flows from operations of around Rs 150 crore in FY2024. Additionally, the group has undrawn bank facilities of around Rs 67 crore as of July 2023 along with unencumbered completed inventory spread across various projects which provides financial flexibility.

Rating sensitivities

Positive Factor: ICRA could upgrade the rating in case there is a significant and sustainable improvement in the company's scale and profitability, along with a considerable improvement in the cash flow from operations and leverage position.

Negative Factor: The rating could be downgraded if significant decline in collections, slippages in project execution, significant increase in indebtedness or increase in loans and advances to Group companies which deteriorates the liquidity and leverage position on a prolonged basis. Further, a decline in cash flow adequacy ratio below 60% will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities Rating Methodology for LRD
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidation, the rating is based on the consolidated financials of MBDL along with its subsidiaries and associate concerns (including Signature Elite Developers, Saville Hospital and Research Centre Private Limited, Nimrana Developers, NKG Buildcon Private Limited) given the close operational and managerial linkages between them. Corporate Guarantee

Analytical Approach	Comments
	has been extended by MBDL to loans availed by Signature Elite Developers, Saville Hospital and Research Centre Private Limited and Nimrana developers.

About the company

MBDL is a public limited company incorporated on April 1, 2008. It is promoted by Mr. N.K. Gupta, having experience of more than three decades in the real estate industry. The company has been operating in Rajasthan for more than 20 years and has gained extensive experience in the real estate industry. The group is currently executing 14 projects and has a completed inventory of around 45 msf area, primarily in Jaipur (Rajasthan).

Key financial indicators (audited) – Consolidated

PDPL Standalone	FY2021	FY2022
Operating income	207.6	182.3
PAT	- 0.3	15.1
OPBDIT/OI	22.7%	16.1%
PAT/OI	-0.1%	8.3%
Total outside liabilities/Tangible net worth (times)	1.7	1.6
Total debt/OPBDIT (times)	7.2	9.7
Interest coverage (times)	1.0	1.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, interest coverage ratio is calculated on OPBIDT.
Source: Company annual reports, ICRA Research

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)* as on March 31, 2023	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					August 16, 2023	May 09, 2022	August 03, 2021	May 18, 2020
1	Term loan	Long term	127.65	66.03	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB- (Positive)	[ICRA] BBB- (Stable)
2	Fund-Based	Long term	0.00	-	-	[ICRA] BBB (Stable)	[ICRA] BBB- (Positive)	-
3	Unallocated	Long term	22.35	-	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB- (Positive)	-

**Nil Outstanding*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-Term Fund-based – Term loan	Simple
Long Term Unallocated	NA

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	Fund-based – Term loan	FY2020	-	FY2026	127.65	[ICRA] BBB (Stable)
NA	Long-Term Unallocated	-	-	-	22.35	[ICRA] BBB (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	MBDL Ownership	Consolidation Approach
Manglam Build-Developers Ltd (Flagship company of Manglam Group)	-	Full Consolidation
Nimrana Developers	60.00%	Full Consolidation
Rangoli Developers	67.00%	Full Consolidation
Dhanshree Developers	80.00%	Full Consolidation
Manglamhome Construction LLP	5.00%	Equity Method
Signature Elite Developers	-	Equity Method
Saville Hospital and Research Centre Pvt Ltd	-	Equity Method
NKG Buildcon Pvt Ltd	-	Equity Method
Woodland Park Buildcon LLP	-	Equity Method
Manglam Ornaments Pvt Ltd	68.35%	Full Consolidation
Shivveer Colonizer Pvt Ltd	80.00%	Full Consolidation
Manglam Monga	99.00%	Full Consolidation
Manglam Land Bank	62.00%	Full Consolidation
Fairmount Developers Pvt Ltd	49.37%	Full Consolidation
Shree Tirupati Developers	35.00%	Equity Method
Vista Housing	37.50%	Equity Method

Source: Company annual report

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About ICRA Limited:

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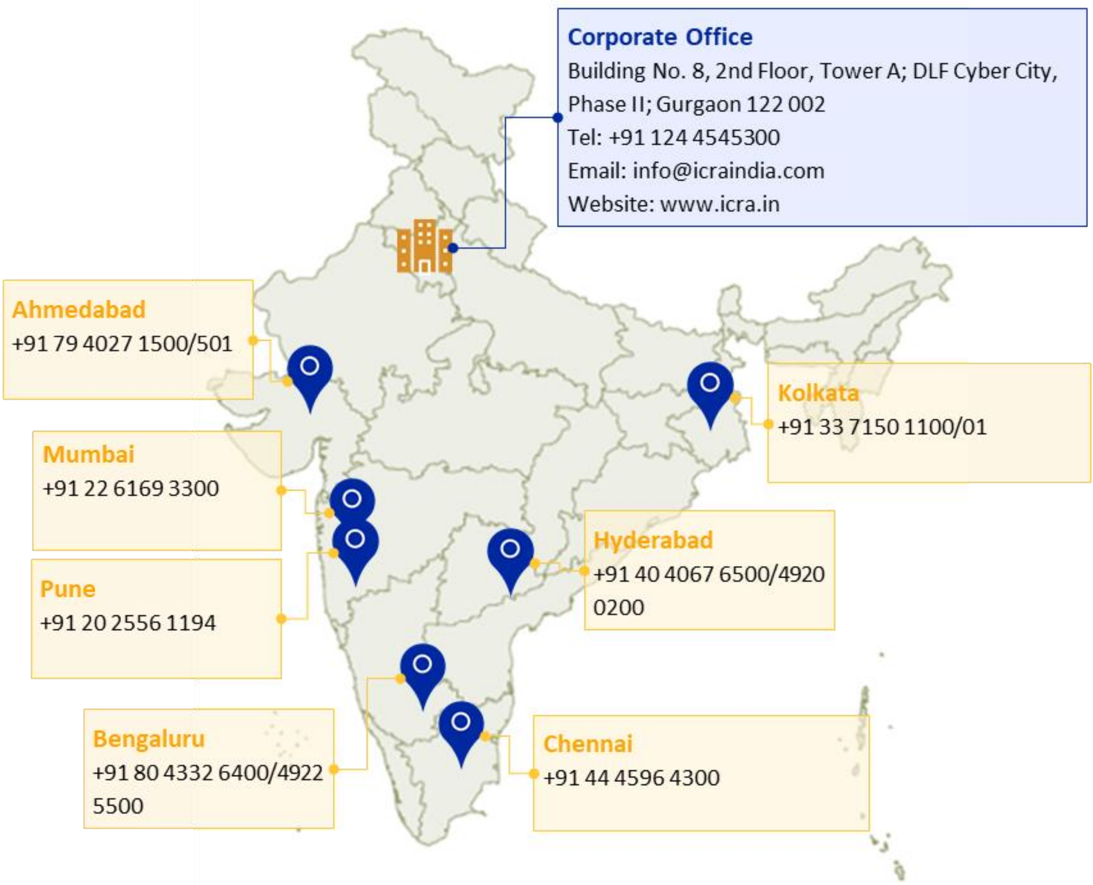

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