

July 23, 2024

Mathapathi Constructions Private Limited: Rating reaffirmed

Summary of rating action

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

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Mathapathi Constructions Private Limited (MCPL) factors in the vast 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, with a total saleable area of 1.8 lakh sqft, which is expected to result in healthy sales post its launch. The project cost of Rs. 140.0 crore is likely to be funded primarily by loans from promoters of around Rs. 120.0 crore and the balance by external debt.

The rating is, however, constrained by the high market risk, given no sales have been made till June 2024 and the company is expected to sell the units post completion of the project. It also faces moderate execution risk as 18% of the project cost is yet to be incurred as of June 2024. As the project has nil committed receivables, the remaining project cost is estimated to be largely funded through loans from promoters, exposing it to funding risk. Further, the company is exposed to geographical concentration risk as the projects are restricted 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 track record of the promoters and favourable location of the ongoing project, which is expected to result in healthy sales post the launch of the project.

Key rating drivers and their description

Credit strengths

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

Favourable project location – The current ongoing project, Mathapathi Grand Field, is located in Gunjur, near the Whitefield micromarket. It is well connected to other micromarkets 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 primarily by loans from promoters of around Rs. 120.0 crore and the balance by external debt.

Credit challenges

Exposed to execution, market and funding risks – MCPL's scale remains low with the nascent stage of operations. At present, the company is executing one residential project, Mathapathi Grand Field, with a total saleable area of 1.8 lakh sqft. The project faces high market risk, given no sales have been made till June 2024. It is expected to sell the units post completion of the project. It also faces moderate execution risk as 18% of the project cost is yet to be incurred as of June 2024. As the project has nil committed receivables, the remaining project cost is estimated to be largely funded through loans from promoters, exposing it to funding risk.

Geographical concentration risk and vulnerability to external factors – The company is exposed to high geographical concentration risk as the projects are limited to Bangalore. The real estate sector is cyclical and marked by volatile prices and highly fragmented market structure because 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 exposes MCPL’s sales to any downturn in demand and competition within the region from various established players.

Liquidity position: Stretched

The company’s liquidity is **stretched**, marked by low cash balance as of March 2024. It is dependent on funds from promoters to complete the construction of the project. As of March 2024, MCPL had sanctioned debt of Rs. 20.0 crore and undrawn debt of Rs. 3.0 crore. There is high dependence on customer advances with nil cash flow adequacy ratio and ramp-up in sales velocity and collections would be critical for improving the liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a significant and sustained increase in 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 Realty – Commercial/Residential/Retail
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Mathapathi Constructions Private Limited is involved in the development of residential apartments for over two decades in Bengaluru. At present, the company is constructing one project, Mathapathi Grand Field, with a saleable area of 1,78,785 sqft. It is promoted by Dr. M.B. Mathapathi, who has over two decades of experience in the residential real estate industry in the Bengaluru market and has completed 10 projects with a saleable area of 5,25,700 sqft.

Key financial indicators: Not applicable being a project company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			July 23, 2024	April 21, 2023	-	-
1 Proposed term loan	Long term	75.00	[ICRA]BB- (Stable)	[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
NA	Proposed term loan	NA	NA	NA	75.00	[ICRA]BB- (Stable)

Source: Company

[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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