

March 14, 2017

Mantra Island Homes Chimbli LLP

Instrument*	Rated Amount (in Rs. Crore)	Rating Action
Long Term - Fund Based Limits	35.00	[ICRA]BBB- (Stable) Assigned
Total	35.00	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned the long-term rating of [ICRA]BBB- (pronounced as ICRA triple B minus)¹ to the Rs. 35.00 crore² fund based limits (project specific working capital limit) of Mantra Island Homes Chimbli LLP (MIHCL). The outlook on the long-term rating is Stable.

Rationale

ICRA has taken a consolidated view of eight legal entities of Mantra Group³ with eight operational projects. A consolidated view has been taken on account of strong operational and financial linkages between the group entities and common management group.

The assigned rating takes into consideration healthy demand outlook for the affordable housing segment, Mantra Group's good track record and brand recognition in affordable housing segment in Pune region built through aggressive marketing over the last three to four years and modest exposure to regulatory risk given that necessary approvals for construction activity are in place. The rating further draws comfort from favourable location of the projects in key growing areas of the city witnessing new demand in the affordable segment and comfortable level of sales booking for the projects achieved as on January 2017. ICRA also takes note of decade long promoter experience in the real estate industry coupled with presence in other business segments including trading of agro products, telecom equipment, e-commerce, research and technology related ventures and start-ups.

The rating is, however, constrained by moderate customer advances built-up as on January 2017 despite comfortable sales booking on account of higher level of bookings achieved in recent months, nascent stage of development of several projects and moderate sales agreement registration status. The collections are expected to improve in near to medium term with pickup in sales agreement registration and construction progress. The initial stage of development of several projects also increases exposure to inherent project execution risks. The rating also factors in market and booking cancellation risks given current slowdown in the real estate sector, exposure to funding risk in absence of adequate incremental sales and timely collection from customers, competition from other similar projects present in the vicinity and geographic concentration risk with group presence limited to the city of Pune and nearby regions.

Key rating drivers

Credit Strengths

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

³ Mantra Insignia LLP, Mantra Island Homes Talegaon LLP, Mantra Island Homes Chimbli LLP, Mantra Earth LLP, Mantra Residencies LLP, Mantra Erectors & Builders LLP, Mantra Greens LLP, Mantra Buildcrafts LLP

- Healthy demand outlook given the increased focus of the Government on promoting affordable housing through various schemes like interest subvention subsidy etc
- Good track record and brand recognition in affordable housing segment in Pune region
- Modest exposure to regulatory risk given that necessary approvals for construction activity are in place
- Projects located in key growing area of the city of Pune
- Comfortable sales booking level for the projects

Credit Weakness

- Moderate customer advances built-up as on January 2017 despite comfortable sales booking; though pickup in sales agreement registration and construction progress to improve collections in near to medium term
- Nascent development stage of several projects increases exposure to inherent project execution risks
- Exposed to market and booking cancellation risks given current slowdown in the real estate sector
- Exposure to funding risk in absence of adequate incremental sales and timely collection from customers; may increase reliance on external debt in order to support cash flows
- Competition from other similar projects present in the vicinity
- Geographic concentration risk with group presence limited to Pune and nearby regions

Description of key rating drivers highlighted above:

Mantra Group entered the real estate business in 2006 and during the last decade has completed development of ~1.6 million sq. ft. (msf) of area with nearly 6.3 msf of area currently under development. The group primarily targets affordable housing segment and thus offers competitive price rates across its projects. The projects of the group are present in key growing areas of the city which are currently witnessing infrastructure development activities resulting in new residential real estate demand.

The eight operational residential projects have collectively booked 66% of the launched area as on January 2017 while 45% of the total project cost has been incurred. The group has collected 31% of the value of the property sold which is lower than the total project cost phasing on account of higher level of bookings achieved in recent months, nascent stage of development of several projects and moderate sales agreement registration status. The group as part of its business strategy initiates billing post registration of sales agreement. With pickup in registration status in Q4 FY2017 coupled with construction progress, the collections are likely to improve in near to medium term. Four out of eight projects are currently in nascent stage of operations and thus exposed to inherent project execution risks. The group also follows a strategy of completing majority of amenities work prior to official project launch which helps it to increase the sales velocity during initial period. The group runs the risk of cancellations of bookings and it remains a key monitorable.

Analytical approach:

For arriving at the ratings, ICRA has taken consolidated view of the eight group entities namely - Mantra Insignia LLP, Mantra Island Homes Talegaon LLP, Mantra Island Homes Chimbli LLP, Mantra Earth LLP, Mantra Residencies LLP, Mantra Erectors & Builders LLP, Mantra Greens LLP and Mantra Buildcrafts LLP owing to strong operational and financial linkages between the group entities and common management group.

Links to applicable Criteria

Corporate Credit Ratings: A Note on Methodology
ICRA Rating Methodology: Real Estate Entities

About the Company:

Mantra Group is promoted by the family of Late Mr. Puranchand Kishorilal Gupta. Gupta family has been in the business profession for six decades in Pune. Currently, the second and third generation of Gupta family is involved in the diversified business operations. Mantra Group entered the real estate business in 2006 and during the last decade has completed development of ~1.6 msf of area and around 6.3 msf of area is currently under development. Key sister concerns of the group are Markets & Markets, Swipe Technologies Private Limited, Puranchand & Sons Trading LLP and Bigdeal Properties (India) Private Limited.

MIHCL, incorporated in 2012, is involved in the development and sale of real estate projects and is part of Pune based Mantra Group. The firm is executing a residential real estate project 'Mantra Magic' located at Chimbli, Pune. Phase-I of the project has a total saleable area of 0.32 msf out of which 84% share will be held by the firm while remaining 16% area will be handed over to land owners. The project was launched in June 2015. All the necessary approvals required for the project such as land approvals, environmental clearance, commencement certificate etc have been obtained.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

Sr. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month-year & Rating in FY2014
				March 2017	Not Applicable		
1	Cash Credit	Long Term	35.00	[ICRA]BBB- (Stable)	Not Applicable		

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	35.00	[ICRA]BBB- (Stable)

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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