

October 10, 2017

Yashmu Projects

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long Term- Unallocated Limits	25.00	[ICRA]B (Stable); assigned
Total	25.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]B (pronounced ICRA B)¹ to the Rs. 25.00-crore² unallocated facilities of Yashmu Projects (YP). The outlook on long-term rating is Stable.

Rationale

The assigned rating factors in the high execution risk of the entity's only ongoing project, Eternity Aspire, as the project is in its nascent stage of construction with ~15% of the total project cost incurred till August, 2017. ICRA also notes the funding risk associated with the project, with construction finance debt yet to be tied up. The rating also takes into account significant market risk associated with the project, given the low level of bookings till date. The rating further factors in the vulnerability of sales to any downturns in the real-estate demand and the competition within the region from various established real-estate developers.

The rating, however, draws comfort from the long experience of the promoters in the real-estate industry and the favourable location of the ongoing project, which is in South West Bengaluru, close to various industrial establishments having well-developed social infrastructure including international schools, shopping malls and multi-specialty hospitals. ICRA also notes that all requisite approvals for the project development are in place.

Going forward, YP's ability to successfully tie up the debt funding, execute the ongoing project within the budgeted cost and time, and to achieve the desired sales momentum with timely collections, would be the critical determinants of its credit risk profile.

Key rating drivers

Credit strengths

- **Long experience of the promoters in the real-estate industry:** YP is a special-purpose vehicle, which was incorporated in 2012, to develop a mixed use project namely, Eternity Aspire, in South West Bengaluru. The firm is a part of Eternity Group (comprising several group companies involved in real-estate development), which has a track record of over a decade in the Bengaluru real-estate space and has executed six residential projects encompassing ~3.25 lakh square feet of constructed area.

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

- **Favourable location of the entity's only ongoing project:** The entity's only ongoing project, Eternity Aspire is located in Mysore Main Road, near Nice Road Junction, in South West Bengaluru. The project is located close to several industrial establishments having developed social infrastructure including international schools, several supermarkets, shopping mall and multi-specialty hospitals.
- **Low regulatory risk:** The project, Eternity Aspire, is being developed under the JDA mode, wherein the company has 61% and 50% shares in the total saleable area of residential area and commercial area, respectively. The land parcel measuring ~0.4 acres has a clear legal title. Further, all the requisite approvals relating to building plan, map etc have been secured, resulting in low regulatory risk.

Credit weaknesses

- **High exposure to market risk of the project due to significant unsold area:** The firm has received bookings for nine out of 44 residential units in its share (~15% of total saleable area) at an average sale price of ~Rs. 4,800 / square feet (sq.ft.) with a total sales consideration of ~Rs. 5.3 crore. Significant unsold area in the project exposes it to high market risks.
- **High execution risk as the project is in the nascent stage of construction:** As of August, 2017, the firm had incurred Rs. 5.1 crore on the project, which is ~15% of the total project cost, indicating nascent stage of project progress, exposing the entity to high execution risk.
- **Exposure to funding risk as debt for the project has not yet been tied up:** The total cost of the project is envisaged at around Rs. 34.2 crore. The same is proposed to be financed with a mix of term-loan facility of Rs. 15.0 crore, partners' capital and unsecured loans of Rs. 5.0 crore and the remaining through customer advances. The financing tie-up for the proposed Rs. 15.0-crore term loan is underway and the promoters have already brought in their entire contribution. Thus, debt tie-up would be crucial for the current progress of the project.
- **Exposure to inherent cyclicity in the real-estate industry coupled with prevailing weak macro-economic scenario:** YP's business is significantly dependent on the performance of the real-estate market in Bengaluru, where its ongoing project is located. Being a cyclical industry, real estate is highly dependent on macro-economic factors. Dependence on a particular geography further heightens such risk.

Analytical approach: For arriving at the rating, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Rating –A Note on Methodology](#)

[Rating Methodology-Real estate entities](#)

About the company:

Yashmu Projects (YP) was incorporated in 2012 as a partnership firm with Mr. K Vijaya Prasad Reddy and Ms. CV Kasturi as partners. The entity is into the business of real estate development and is executing its first mixed use (residential cum commercial) project namely, Eternity Aspire, at Mysore Road, Bengaluru, at present. The construction for the project started in January, 2016 and is likely to be completed by April, 2018. The project consists of two towers, comprising G+7 floors each with 72 residential units and 41,500 sq.ft. of commercial space. The ticket size of the apartment ranges from Rs.0.49 crore to Rs.0.72 crore.

The company follows percentage completion method for recognition of revenues and is yet to recognise any revenues and cost.

Key Financial Indicators

	FY2016	FY2017
	Audited	Audited
Operating Income (Rs. crore)	-	-
PAT (Rs. crore)	-	-
OPBDIT/ OI (%)	-	-
RoCE (%)	-	-
Total Debt/ TNW (times)	1.5	1.0
Total Debt/ OPBDIT (times)	-	-
Interest coverage (times)	-	-
NWC/ OI (%)	-	-

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Note: Till FY2016, the revenues were reported after netting off the expenses incurred towards construction activities.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S.No	Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crore)	Month-year & Rating in FY2018	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015	
				October 2017	2017	2016	2015	
1	Unallocated Limits	Long Term	25.00	[ICRA]B (Stable)	-	-	-	

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
Instruments details

Name of the instrument	Date of Issuance/Sanction	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Unallocated Limits	-	-	-	25.00	[ICRA]B (Stable)

Source: YP



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