

## Maithri Developers

April 05, 2019

### Summary of rating action

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Unallocated Limits	60.0	[ICRA]B+(Stable); assigned
<b>Total</b>	<b>60.0</b>	

### Rationale

The assigned rating takes into account the long track record of the promoter, Mr. BVS Reddy, in the field of real estate development with the firm developing 2.0 million square feet (msft) of constructed area over the past 15 years. The rating also factors in the favourable location of the ongoing projects with proximity to public amenities such as hospitals, IT parks and educational institutions. The rating is, however, constrained by the firm's modest scale of operations, notwithstanding the significant improvement in revenues in FY2018, which limits the operational and financial flexibility of the firm. The rating is also constrained by the high market and execution risks for its ongoing projects, Shilpitha Royal Oak and Shilpitha Tech Park, with both projects being in nascent stages of construction. The rating considers the risks emanating from proprietor constitution of the firm, including withdrawal of capital, dissolution of the firm, etc. Besides, the rating also factors in the intense competition in the Bengaluru real estate market and the susceptibility to cyclicity and regulatory risks inherent in the industry.

### Outlook: Stable

ICRA expects Maithri Developers to continue to benefit from the long track record of the promoter and the favourable location of the ongoing projects. The outlook may be revised to Positive if healthy sales progress and timely execution of its ongoing projects, result in improved receipt of customer advances. Conversely, the outlook may be revised to Negative if cash flows from operations are lower than expected, either because of subdued booking levels or low customer advances, or if any significant delay in completion of the projects, weakens the firm's liquidity position.

### Key rating drivers

#### Credit strengths

**Long track record of the promoter** - The firm is promoted by Mr. BVS Reddy, who has over a decade of experience in the real estate industry. Although the scale of operations remains moderate, the firm has developed around 2.0 msft over the past 15 years.

**Favourable location of the ongoing projects** – The ongoing project, Shilpitha Royal Oak, is located in Sadarmangala in North Bangalore which is in close proximity to many public amenities such as hospitals, IT parks and educational institutions. The project, Shilpitha Tech Park, is located in Devirabisanahalli on the outer ring road which was witnessed healthy demand for both residential and commercial real estate activities in the recent past.

**Low regulatory risks** - The projects are being developed under the joint development agreement (JDA) mode, such that the firm has 55% share in the total saleable area (for both projects combined). The firm has received all approvals required to carry out the project's construction.

## Credit challenges

**High market, execution and funding risks for the projects** - The firm faces high market and execution risks for both its ongoing projects as they are in nascent stages of construction. Moreover, the debt for the ongoing projects is yet to be tied up which exposes the firm to funding risks as well. Furthermore, the firm has three upcoming projects encompassing 0.8 msft of saleable area in the next one year.

**Inherent risk associated with the proprietorship nature of business** – The firm is exposed to risks associated with proprietorship firms such as capital withdrawals and dissolution of the firm, etc.

**Exposure to inherent cyclicality in real estate industry** - As real estate is a cyclical industry, it is highly dependent on macro-economic factors, which make the firm's sales vulnerable to downturns in demand and competition within the region from various established developers. With operations of the Maithri Developers concentrated in Bengaluru, it also exposes the firm to geographical concentration risks.

## Liquidity position

The cash flow from operations improved significantly in FY2018 due to significant reduction in inventory levels. The firm had achieved healthy sales for the completed projects, resulting in repayment of the outstanding debt in a timely manner. Currently, the firm is planning to avail a debt of Rs 60.0 crore to part finance the construction cost of its ongoing projects, Shilpitha Royal Oak and Shipitha Tech Park. However, with the ongoing projects in nascent stages of implementation, the liquidity position will remain dependent on the sales velocity and collection efficiency achieved, besides, the ability of the promoter to bring his contribution in a timely manner.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology-Real estate entities</a>
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on the standalone financials of the issuer.

## About the company

Incorporated in 2004, Maithri Developers (MD) is a proprietorship firm engaged in real estate development in Bangalore, Karnataka. The proprietor has long experience in the field of real estate development and construction and the firm has successfully executed 11 residential projects since its establishment encompassing ~2.0 million square feet (msft) of saleable area. The residential projects include apartments, with amenities such as clubhouse, swimming pool and gymnasium. Presently, the firm has two ongoing projects and three more projects are expected to commence within a year's time. The firm undertakes all the activities with the assistance of its in-house team of engineers and architects.

### Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	50.5	112.6
PAT (Rs. crore)	4.6	5.8
OPBDIT/ OI (%)	29.4%	13.1%
RoCE (%)	19.9%	22.4%
Total Debt/ TNW (times)	4.1	1.6
Total Debt/ OPBDIT (times)	4.4	2.0
Interest coverage (times)	1.5	1.7

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years

Current Rating (FY2020)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of February 2019 (Rs. crore)	Date & Rating April 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2016	Date & Rating in FY2016
1 Unallocated Limits	Long Term	60.00	-	[ICRA]B+ (Stable)	[ICRA]B- (Stable) ISSUER NOT COOPERATING; Withdrawn	[ICRA]B- (Stable); ISSUER NOT COOPERATING	[ICRA]B-	[ICRA]B-

### 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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated Limits	-	-	-	60.00	[ICRA]B+(Stable)

Source: Maithri Developers

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