

## Mahima Real Estate Private Limited

November 05, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loan	131.75	131.75	[ICRA]BBB(Stable); revised from [ICRA]BBB+(Stable)
<b>Total</b>	<b>131.75</b>	<b>131.75</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has revised the long-term rating to [ICRA]BBB (pronounced ICRA triple B) from [ICRA]BBB+ (pronounced ICRA triple B plus) assigned earlier to the Rs. 131.75-crore<sup>1</sup> long-term fund-based limits of Mahima Real Estate Private Limited (MREPL)<sup>2</sup>. The outlook on the long-term rating is Stable.

### Rationale

The rating revision reflects the slowdown in sales and collection driven by the sluggish demand in the real estate sector which poses a challenge to the company in maintaining its sales velocity, especially in its under-development residential projects. The company has reported lower-than-expected collections and weak sales velocity. The incremental sales value from the under-development portfolio stood at Rs. 37 crore during the nine-month period ended September 2018. Further, the customer collections in the ongoing projects also remained lower-than-expected at Rs. 45.03 crore during the said period. ICRA believes that slower sales is expected to put pressure on the operational cash flows in the near-to-medium term given that the collections from the incremental sales would come with a lag. The risk is further accentuated by the elevated debt levels of Rs. 248 crore at the end of September 2018 and significant debt repayments due over the next 18 months ending March 2020, which will necessitate notable ramp-up in sales as well as collections to moderate any cash flow pressure. Over the next 18 months, MREPL has ~Rs. 104 crore of debt repayments. However, undrawn limits of Rs. 79.00 crore as on September 30, 2018 are expected to provide comfort to some extent. In addition, the rating continues to be constrained by the project-related risks associated with real estate sector, including execution risks given that the current development portfolio is at an early-to-intermediate stage of development. The execution pace in the ongoing projects also remained modest with a total cost incurred of Rs. 48 crore during the nine-month ended September 2018. Going forward, timely execution will remain essential to maintain collections from customers given that a large part of the sales booked are construction linked.

The rating, however, draws strength from the operating profile of MREPL marked by established track record of the company and Mahima's brand strength in the Jaipur real estate market. Further, the rating also draws comfort from the diversified portfolio of the company, which includes finished and under-development inventory as well as product catering to different segments, ie premium to affordable segment, which helps Mahima address a wider spectrum of the customer base. MREPL's operational cash flows have been mainly supported by way of sales in its finished inventory, a segment that has witnessed demand from customers. The pending receivables of Rs. 12 crore for the sale of its finished inventory along with the value of around Rs. 40 crore of unsold ready-to-occupy stock underpins the rating to an extent.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

However, going forward, the Group's reliance on under-development projects would increase because of the decline in inventory holding of finished projects.

Going forward, pick-up in sales and collections, reduction in its elevated debt levels as well as improved maturity profile will remain amongst the key rating factors.

## Outlook: Stable

ICRA believes MREPL's cash flows would be supported by inflows from finished inventory in the near to medium term that continues to witness demand. The outlook may be revised to 'Positive' in case of higher-than-expected pick-up in overall sales and collections, thus, improving the operational cash flows of the company. The outlook may, however, be revised to 'Negative' should there be pressure on the operational cash flows in the backdrop of slow sales and collections from customers.

## Key rating drivers

### Credit strengths

**Established track record of the promoters in Jaipur real estate** - MREPL is involved in real estate development in Jaipur and is promoted by Shri Dhirendra Madan and his family. The promoters have about two decades of experience in the real estate business in Jaipur. Owing to its established track record of development and delivery, Mahima enjoys strong brand strength.

**Diversified portfolio of the company** - MREPL's current offering includes finished and under-development inventory as well as product catering to different segments, ie premium to affordable segment, which helps Mahima address a wider spectrum of the market.

**Inventory in completed projects support cash flows** - The company's cash flows have been supported by healthy collections from finished inventory in the past nine months at Rs. 64.26 crore, a segment that has witnessed demand from customers. As on September 30, 2018, company had around Rs. 40 crore of finished inventory and around Rs. 12 crore pending collections because of sales from finished inventory. However, going forward, the company's reliance on ongoing projects would increase because of the decline in inventory holding of finished projects.

### Credit challenges

**Elevated debt levels and repayment obligation** - The consolidated debt of the company remains elevated. The external debt as on September 30, 2018 was Rs. 248 crore<sup>3</sup>. The risk is further accentuated by the significant fixed obligations and operational expenses over the next 18 months ending March 2020, which will necessitate notable ramp-up in sales as well as its collections to moderate any cash flow pressures.

**Slow sales and lower-than-expected customer collections in under-development projects**- The company achieved lower-than-expected collections and weak sales velocity in its under-development portfolio in the backdrop of muted demand for real estate. The incremental sales value from the under-development portfolio stood at Rs. 37 crore during the nine-month period ended September 2018. Further, the customer collections in the ongoing projects remained lower-than-expected at Rs. 45.03 crore during the said period.

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<sup>3</sup> including Rs. 25.29 crore of overdraft against FDR

**Projects risks associated with the ongoing and planned projects** – As on September 30, 2018, the company has spent around 48% of the budgeted cost towards project development. The company has around Rs. 229 crore of pending total project cost that is yet to be spent. Further, the company has plans to come up with new projects in the near term which, along with its ongoing projects, will expose it to project-related risks.

**Exposure to marketing risk** - The company is currently executing six residential apartment projects encompassing ~1.9 mn sq ft of total saleable area. As of September 2018, the company has unsold inventory of 1.07 mn sq ft. At the current pace of sales of 0.04 mn sq ft per quarter, it would require 27 quarters to sell the entire area. This exposes the company to marketing risk.

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

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Real Estate Entities](#)

## About the company

Incorporated in 1996, MREPL is promoted by Shri Dharendra Madan and is involved in real estate development in Jaipur (Rajasthan). MREPL has completed multiple commercial and residential real estate projects in Jaipur, prominent among which are Crystal Court, Crystal Mall, Crystal Palm, Trinity, Iris-1 and Iris-II, Fountain Square, Elite, Desire, Panorama, Nirvana, City Ville, Kopal, Elanza and Panache. MREPL is currently executing six residential real estate projects – Bellevista, Nirvana-2, Uday, Florenza, Shubh Nilay Ph-1, and Sansaar Ph-1. All the projects are located in Jaipur.

In FY2017, the company reported a consolidated net profit of Rs. 7.67 crore on a consolidated operating income (OI) of Rs. 119.8 crore compared with a net profit of Rs. 9.6 crore on an OI of Rs. 140.2 crore in the previous year.

## Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	140.2	119.8
PAT (Rs. crore)	9.6	7.7
OPBDIT/OI (%)	11.7%	10.6%
RoCE (%)		5.6%
Total Debt/TNW (times)	1.35	2.11
Total Debt/OPBDIT (times)	10.35	21.08
Interest Coverage (times)	1.34	1.30

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

**Any other information: None**

## Rating history for last three years

Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Chronology of Rating History for the past 3 years					
				Date & Rating in FY2019			Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				Nov-18	Jun-18	May-18	Feb-17	Dec-15	Jan-15
1 Term Loan	Long Term	131.75	131.75	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (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](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	Term Loan 1	7-Jun-2017	-	FY2021	23.50	[ICRA]BBB (Stable)
NA	Term Loan 2	29-Jan-2016	-	FY2020	8.50	[ICRA]BBB (Stable)
NA	Term Loan 3	17-Jan-2015	-	FY2020	18.00	[ICRA]BBB (Stable)
NA	Term Loan 4	23-Sep-2016	-	FY2020	15.00	[ICRA]BBB (Stable)
NA	Term Loan 5	29-Dec-2017	-	FY2022	60.0	[ICRA]BBB (Stable)
NA	Term Loan 6	29-Jan-2016	-	FY2019	2.00	[ICRA]BBB (Stable)
NA	Term Loan 7	16-Oct-2014	-	FY2020	4.75	[ICRA]BBB (Stable)

Source: MREPL

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