June 11, 2021

M3M India Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund Based	1570.0	1100.00	[ICRA]BBB (Stable); reaffirmed
Long-term Non-fund based	135.0	100.0	[ICRA]BBB (Stable); reaffirmed
Unallocated	295.0	-	-
Total	**2000.00**	**1200.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action favourably factors in the M3M Group's established track record of more than one decade in the real estate industry, with demonstrated project execution capabilities and strong brand image in the Gurgaon real estate market. The Group has a diversified product portfolio, with a healthy mix of commercial and residential projects across Gurgaon. ICRA notes that 16% of the total inventory (by saleable area) is from completed projects and the balance 84% is from ongoing projects.

The Group achieved healthy sales of Rs. 2,600 crore in FY2021 and FY2020, respectively and collected Rs. 1,926 crore in FY2021 against Rs. 1,480 crore in FY2020. On the back of the healthy sales and collections, the net debt reduced to Rs. 1,117 crore as on March 2021 from Rs. 1,311 crore as on March 2020. Further, committed receivables from sold inventory at the end of March 31, 2021 stood at a robust Rs. 4,882 crore, which resulted in healthy cash flow adequacy cover[1] of 140%. Nonetheless, some of the sales were supported by innovative marketing schemes launched by the Group in the last one year, such as Port Your Property (PYP), buyback of units. Some of these schemes come with conditions that could materially impact future cash flows, affecting the surplus generated by the Group. The liquidity of the Group is adequate with free cash balances as at end of March 2021 of Rs. 275 crore[2] as well as proven refinancing ability. Additionally, the Group has DSRA of Rs. 144 crore maintained with the lenders.

However, sales velocity and cash flows in the real estate sector have been impacted by the disruption caused by the second wave of Covid-19, which could result in a weakening of its credit risk profile and also increased reliance on debt funding. The rating factors in the Group's exposure to high execution and marketing risks associated with the large unsold area (5.3 mn sqft) and significant ongoing and planned projects. The rating also remains constrained by the significant scheduled debt repayments over medium term; any slowdown in the sales and collections may result in accentuated exposure to refinancing risks. ICRA also notes that the Group undertook debt-funded land acquisition in the past and plans to further shore up its land bank in the medium term, which can result in an increase in debt levels. The funding mix for the acquisition will be a key monitorable. Nevertheless, ICRA notes that these land acquisitions improve visibility of launches in near-term and are expected to have favorable return metrics owing to competitive acquisition cost.

The Stable outlook reflects the Group's long and established track record in Gurgaon's real estate market and healthy committed receivables of Rs. 4,882 crore, leading to cash flow adequacy ratio of 140% as on March 2021. However, impact on the sales and cash flows of ongoing and planned projects in FY2022 owing to disruption caused by the second wave of Covid-19 would remain a key rating sensitivity.

[1] *Ratio of committed receivables to pending cost and outstanding debt*

[2] *DSRA of Rs. 144 crore as on March 2021*

Key rating drivers and their description

Credit strengths

Leading real estate developer in Gurgaon with established track record – The M3M Group has an established track record of more than one decades in the real estate industry. It has demonstrated project execution capabilities and a strong brand image in the Gurgaon real estate market.

Healthy sales velocity and collections in last two years enabled significant debt reduction – The Group witnessed healthy sales of over 2.6 mn sqft area and collections of Rs. 1,926 crore in FY2021. Nonetheless, some of the sales were supported by innovative marketing schemes launched by the Group in the last one year, such as PYP and buyback of units. Of all the schemes, PYP received massive response and led to a surge in sales in FY2021. Over the past year, the mandatory debt prepayment clause associated with collections received against these sales resulted in significant net debt reduction to Rs. 1,117 crore in March, 2021 from Rs. 1,311 crore in March 2020.

Robust cash flow adequacy ratio and comfortable liquidity position – The pending collections against sales achieved thus far, amounting to Rs. 4,882 crore, provide healthy visibility of cash flows over the medium term, especially given that the most of these collections are linked to possession and most projects have been completed/are at an advanced stage of completion. Build-up of pending customer collections from sold inventory at the end of March 31, 2021 of Rs. 4,882 crore resulted in healthy cash flow adequacy cover of 140% as of March 2021. The Group also benefits from an adequate liquidity position and has around Rs. 275 crore[3] in the form of free cash and bank balances as well as proven refinancing ability. Additionally, the Group has DSRA of Rs. 144 crore to tide through temporary cash flow mismatches.

Diversified product portfolio – The Group has a diversified product portfolio, with a healthy mix of commercial and residential projects across Gurgaon. It has completed more than ~11 mn sqft of development. The Group is currently developing 11 residential and commercial projects, spanning 9.9 mn sqft and has demonstrated project execution capabilities and strong brand image in Gurgaon's real estate market.

Credit challenges

Exposure of Group's cash flows towards impact of second wave of Covid-19 and innovative marketing schemes – The sales velocity and cash flows in the real estate sector have been impacted by the disruption caused by the second wave of Covid-19, which could result in a weakening of its credit risk profile and increased reliance on debt funding. The rating factors in the exposure to high execution and marketing risks associated with the large unsold area (5.3 mn sqft) and significant ongoing and planned projects. ICRA further notes that the Group has booked heathy sales under innovative marketing schemes, such as PYP, buybacks, etc. Some of the marketing schemes come with conditions that could materially impact future cash flows, affecting the surplus generated by the Group.

Exposure to marketing and execution risks for ongoing and planned projects – Despite healthy sales velocity in FY2021 in the residential and commercial projects, the Group is exposed to high execution and marketing risks associated with the large unsold area (of 5.3 mn sqft), and significant ongoing and planned projects. The funding mix of the planned projects will be a key monitorable.

Refinancing risk despite reduction in debt levels – The debt level of the Group has reduced to Rs. 1,536 crore in March 2021 from Rs. 1,721 in the previous year. Although the overall debt has reduced primarily on the back of collection-linked prepayments, the fresh debt availed to fund the acquisition of land investment has partially offset the benefits of reduction in net leverage on the back of healthy collections. With scheduled medium-term debt repayments (Rs. 204 crore in FY2022 and

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[3] As on March 31, 2020

Rs. 584 crore in FY2023), any slowdown in sales and collections may result in exposure to debt refinancing risks. However, the established track record of the Group in availing refinancing in the past offers comfort.

Debt-funded land acquisition – The company in FY2021 acquired 81 acres of land, which is mainly funded from debt, leading to higher levels of debt. ICRA further notes that the Group has aggressive land acquisition plans in the medium term, which can result in higher debt levels for it. The funding mix for the acquisition will be a key monitorable. ICRA notes that these land acquisitions improve visibility of launches in near-term and are expected to have favorable return metrics owing to competitive acquisition cost.

Liquidity position: Adequate

The Group's liquidity position is likely to remain **adequate**, on the back of healthy build-up of committed receivables, which are more than adequate to cover the total pending project cost and debt obligations. Comfort is also drawn from the available liquidity of around Rs. 275 crore in the form of cash and bank balances, as well as proven refinancing ability. Further, the group has DSRA of 144 crore, which provides cushion for debt servicing, in case of temporary liquidity mismatch.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the Group is able to demonstrate sustained healthy execution along with further improvement in sales, collections and net leverage position on a consistent basis.

Negative factors – Negative pressure on the rating could arise in case of higher-than-expected impact of the second wave of Covid-19 on sales and collections, or if there are delays in project execution, or if significant debt-funded investments in new projects/land impact its capital structure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Real Estate Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has taken a consolidated view of M3M and its subsidiaries given the close business, financial and managerial linkages among the entities.

About the company

M3M, formerly known as M3M India Ltd., was incorporated in March 2007 by Mr. Roop Kumar and Mr. Pankaj Bansal. At present, the group is developing around 9.9 mn sq ft, concentrated mainly across Sector 65 and 67 of Gurgaon, Haryana. The Group's current inventory is primarily focused on the luxury and ultra-luxury segments.

Key financial indicators (audited) - Standalone

Standalone	FY2019	FY2020
Operating Income (Rs. crore)	1,081.18	926.57
PAT (Rs. crore)	-211.19	-312.65
OPBDIT/OI (%)	27.29%	17.88%
PAT/OI (%)	-19.53%	-33.74%
Total Outside Liabilities/Tangible Net Worth (times)	2.04	2.41
Total Debt/OPBDIT (times)	6.00	9.13
Interest Coverage (times)	0.91	0.70

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					June 11, 2021	24-Jan-2020	5-Apr-2019	18-May-2018	25-Aug-2017
1	Fund-based Limits	Long-term	1100.0	1100	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Non-fund based Limits	Long-term	100.0	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Unallocated	Long-term	-	-	-	[ICRA]BBB (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Limits	Simple
Non-fund based Limits	Very 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 analyzing 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, is available on ICRA's website: 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	Sep-17	10.6%	FY2022	31	[ICRA]BBB(Stable)
NA	Term Loan – 2	Mar-16		FY2023	66	[ICRA]BBB(Stable)
NA	Term Loan – 3	Jul-19	-	FY2023	17	[ICRA]BBB(Stable)
NA	Term Loan – 4	Sep-16	-	FY2025	216	[ICRA]BBB(Stable)
NA	Term Loan – 5	Dec-17	-	FY2025	77	[ICRA]BBB(Stable)
NA	Term Loan – 6	FY2021	-	FY2024	289	[ICRA]BBB(Stable)
NA	Term Loan – 7	FY2021	-	FY2027	326	[ICRA]BBB(Stable)
NA	Term Loan – 8	FY2021	-	FY2024	77	[ICRA]BBB(Stable)
NA	Bank Guarantee	-	-	-	100	[ICRA]BBB(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	M3M Ownership	Consolidation Approach
Lekh Buildtech Pvt Limited	100%	Full Consolidation
Lavish Buildmart Pvt Ltd	100%	Full Consolidation
Roshni Builder Pvt Ltd	100%	Full Consolidation
Gentle Realtors Pvt Ltd	100%	Full Consolidation
Prompt Engineering	-	Full Consolidation
Olive Realcon	Fellow Subsidiary	Full Consolidation
Manglam Multiplex Pvt Ltd	26.67%	Full Consolidation

Source: *Company annual report FY2020*

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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.

For more information, visit www.icra.in

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