

December 12, 2022

Macrotech Developers Limited: [ICRA]A+ (Stable); assigned for the Non-Convertible Debenture programme; and reaffirmed for existing bank limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	600.00	600.00	[ICRA]A+ (Stable); reaffirmed
Non-Convertible Debentures	-	375.00	[ICRA]A+ (Stable); assigned
Total	600.00	975.00	

*Instrument details are provided in Annexure-I

Rationale

The rating assignment for the Non-Convertible Debenture (NCD) programme and reaffirmation of rating for existing bank facilities factor in Macrotech Developers Limited's (MDL) established track record of over four decades and its strong leadership position in Mumbai and Thane residential real-estate markets, underpinned by over 86 million square feet (mn sq ft) of deliveries till date. In H1FY2023, MDL has reported strong pre-sales and collections of Rs. 6,004 crore (P.Y. Rs. 2,960 crore) and Rs. 4,991 crore (P.Y. Rs. 3,626 crore) respectively. The rating also draws comfort from the significant debt reduction achieved by the company over the past 15-18 months supported by healthy cash flow from operations (CFO) and through the proceeds from the initial public offer (IPO) of Rs. 2,500 crore in April 2021 and the subsequent qualified institutional placement (QIP) of Rs. 4,000 crore in November 2021. Consequently, the net debt to CFO declined to 2.4 times as on March 31, 2022 from 6.4 times as on March 31, 2021. Further, generation of healthy cash flow from operations has resulted in reduction in net debt to CFO¹ to 1.9 times as on September 30, 2022. ICRA expects the net debt/ CFO to remain comfortably below 1.5 times as on March 31, 2023 led by further debt reduction in line with management's stated guidance of achieving target net debt/ CFO of below 1 times over the next twelve months.

MDL enjoys healthy pre-sales backed by diversified product segment and derives its pre-sales/collections from residential, commercial and monetisation of leased-assets/ land-parcels. Residential and commercial pre-sales are expected to remain strong supported by sizeable unsold inventory of around Rs. 27,000 crore as on September 30, 2022 and new launch pipeline of 10 mn sq ft over the next one year. MDL, through historic land acquisitions, has access to sizeable land parcels (4,300 acres as of September 2022 of which 3,500 acres is dedicated for digital infrastructure). Monetisation of leased-assets/ land parcels comprised 21% of CFO in FY2022 and expected to contribute to over 10% of CFO in FY2023.

The rating is, however, constrained by the moderate cash flow cover² from the collectible amounts of existing pre-sales. Therefore, sustaining the sales momentum remains important. The risk is partly mitigated by sizeable ready-to-move-in (RTMI) as well as ongoing inventory (with estimated value of around Rs. 7,500 crore and Rs. 14,500 crore respectively as on March 31, 2022) as well as comfortable sales velocity with years-to-sell of two to three years across majority of the projects. The leverage for MDL's development portfolio is moderate with total debt/net working capital for MDL at over 1.2 times as on March 31, 2022 which in turn is attributable to historical debt-backed land acquisitions. The impact of these historical loans is seen on the average cost of debt being higher than its peers at 9.9% as on September 30, 2022. However, ICRA notes the favourable shift in debt profile as the cost of debt reduced from 12.3% as on March 31, 2021 to the current level. The rating

¹ Based on trailing 12-months data

² Cash flow cover is assessed by computing cash flow adequacy cover (after adjusting for cost of unlaunched area) for the company's portfolio using receivables/(pending cost + debt outstanding)

also factors in execution and market risks resulting from the large expansion plans. Further, the company is exposed to the cyclical nature in the residential real estate segment.

The Stable outlook on the rating reflects ICRA's belief that the company will continue to benefit from its established brand as well as track record of operations and maintain healthy sales and collections, while reducing its leverage.

Key rating drivers and their description

Credit strengths

Leading real-estate developer with track record of 40 years with established presence in Mumbai and Thane markets – MDL has a long track-record of over four decades in real-estate development across residential, commercial and warehousing segments. As on September 30, 2022, the company delivered ~89 mn sq ft of area and had ~99 mn sq ft of ongoing and planned developable area. MDL has established presence in Mumbai and Thane markets as majority of its delivered projects have been largely concentrated in these markets. Despite competition from large tier-1 developers, the company enjoys market-leader position in these markets based on FY2022 pre-sales. Besides the Mumbai Metropolitan Region (MMR), the company plans to have stronghold in Pune market over the coming years. MDL, through historic land acquisitions, has access to sizeable land parcels (4,300 acres as of September 2022 of which 3,500 acres is dedicated for digital infrastructure). The management plans to have an asset light model for growth under the JV/JDA route given the low upfront investment and adequate returns. During the past 18 months (ending September 2022), the company entered into 14 JDAs in MMR, three in Pune and one in Bengaluru with total development potential of Rs. 23,900 crore.

Healthy pre-sales backed by diversified portfolio across different product segments – MDL's pre-sales/collections are derived from residential, commercial and monetisation of leased-assets/ land-parcels. Monetisation of leased-assets/ land parcels comprised 10% of collections in FY2022 and are expected to contribute to around 15% of CFO in FY2023. The company has reported strong pre-sales of Rs. 9,024 crore in FY2022 which are targeted to further grow to Rs. 11,500 crore in FY2023. In H1 FY2023, nearly Rs. 6,000 crore pre-sales were reported by MDL.

MDL along with its group companies has invested in two projects in United Kingdom. For the UK projects (not consolidated under MDL), the total inventory finance debt outstanding stood at GBP 55 million as on September 30, 2022 (GBP 110 million as on June 30, 2022). As on June 30, 2022, USD bonds (raised at MDL level) of GBP 42 million were outstanding. MDL pre-paid these USD bonds as on September 12, 2022 ahead of the scheduled repayment date in March 2023. The remaining outstanding inventory finance debt is expected to be comfortably repaid from the projects' receivables and the surplus of Rs. 1,100 crore from sale of the balance inventory is expected to be repatriated to MDL in FY2023 and FY2024.

Significant reduction in leverage in recent years; guidance of maintaining net debt/CFO at below 1 times – The leverage for MDL's development portfolio is moderate with total debt/ net working capital for MDL was 1.2 times as on March 31, 2022 which in turn is attributable to historical debt-backed land acquisitions. The company has undertaken significant deleveraging measures post its listing on stock exchange in April 2021. The proceeds from IPO (Rs 2,500 crore) and subsequent QIP issuance (Rs. 4,000 crore) in November 2021, along with operating cash flows were used for paring the debt. Consequently, the net debt declined to Rs. 9,300 crore as on March 31, 2022 from Rs. 16,076 crore as on March 31, 2021 and the net debt to CFO declined to 2.4 times as on March 31, 2022 from 6.4 times as on March 31, 2021. Further, generation of healthy cash flow from operations has resulted in reduction in net debt to CFO³ to 1.9 times as on September 30, 2022. The company is expected to undertake further debt reduction in the current year, with targeted net debt of below Rs. 7,000 crore as on March 31, 2023. This is in line with the management's stated guidance of achieving target net debt/ CFO of below 1 times over the next twelve months aided by healthy CFO and repatriation from UK projects. Any significant borrowings resulting in a deviation from the stated debt reduction trajectory would be a key rating monitorable.

³ Based on trailing 12 months data

Credit challenges

Collectible amounts from existing pre-sales provide moderate cash flow cover – The cash flow adequacy cover (after adjusting for the cost of unlaunched area) for the company's portfolio is moderate with receivables/(pending cost + debt outstanding) of 41% as on March 31, 2022, indicating high dependence on sustaining healthy sales momentum. The risk is partly mitigated by the sizeable RTMI as well as ongoing inventory (with estimated value of around Rs. 7,500 crore and Rs. 14,500 crore respectively as on March 31, 2022) as well as comfortable sales velocity with years-to-sell time span of two to three years across majority of the projects.

Large expansion plans to enhance execution and market risk – MDL has significant plans of expanding its ongoing portfolio in order to maintain the growth momentum and strengthen its market presence in new micro-markets in MMR and Pune. As on September 30, 2022, the pipeline for ongoing and future project launches stood at ~70 mn sq ft, exposing the company to execution and market risks. Timely launch of these projects, along with healthy sales and collection momentum, would be critical for improving the operational cash flow generation. Nonetheless, ICRA takes comfort from MDL's established track record of project execution, strong brand presence which aids sales velocity. Additionally, it is expected to benefit from the ongoing trend of market consolidation, whereby the share of large players is likely to increase, driven by their strong brand, track record of delivery and quality execution.

Susceptibility to cyclical and regulatory risks in the real estate sector – The real estate sector is cyclical and has a highly fragmented market structure because of the presence of a large number of regional players. In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which in turn exposes the company's sales to any downturn in demand.

Environmental and social risks

The real estate segment is exposed to risks of increasing environmental norms impacting operating costs, including higher costs of raw materials such as building materials and cost of compliance with pollution control regulations. Environmental clearances are required for commencement of projects and lack of timely approvals can impact business operations. Impact of changing environmental regulations on licences taken for property development could also create credit risks. MDL has set a target to achieve carbon neutrality by 2035 and hence, it is expected to be better prepared in case of any change in aforementioned regulations.

In terms of the social risks, the trend post-pandemic has been favourable to real-estate developers as demand for quality home with good social infrastructure has increased. Further, rapid urbanisation and a high proportion of workforce population (aged 25-44 years) will support demand for real-estate in India and, in turn, benefit MDL. The same is supported by healthy sales trend reported over the recent quarters.

Liquidity position: Strong

ICRA expects MDL's liquidity position to remain strong, driven by healthy cash flow from operations as against scheduled repayments of round Rs. 600 crore in H2 FY2023. The company's liquidity is further supported by around Rs. 1,600 crore cash and liquid investments and undrawn bank lines of around Rs. 2,800 crore as on September 30, 2022. Additionally, expected repatriation of Rs. 1,100 crore from the UK projects over the current and the next fiscal will support the company's liquidity profile.

Rating sensitivities

Positive factors – The rating may be upgraded if significant and sustained growth in sales and collections in MDL's project portfolio, along with greater business diversification, results in robust and sustainable improvement in cash flows and liquidity, and lower reliance on debt funding. Specific metric for a rating upgrade will be better visibility on trajectory to achieve gross debt/CFO of 1 times.

Negative factors – The ratings may be downgraded if project execution, sales velocity and collections are slower-than expected in the ongoing and new projects and/or significant debt-funded investments in new projects results in gross debt/CFO sustaining above 2.0 times.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	- Corporate Credit Rating Methodology - Rating Methodology for Real Estate entities - Rating approach for consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated MDL along with its operational subsidiaries, JVs and associate entities on account of the strong business and financial linkages between these entities. As on March 31, 2022, the company had 32 subsidiaries and 20 JVs/associates/ LLP, which are all enlisted in Annexure-II.

About the company

Macrotech Developers Limited (MDL), formerly known as Lodha Developers Limited, is one the largest real estate developer in India with market leader position in Mumbai and Thane markets. It has about 99 mn sq ft in saleable area as on September 30, 2022 (inclusive of the ongoing and planned projects as well as future developments). In addition, the company has around 3,500 acres of land earmarked primarily for digital infrastructure development.

The company was listed on the Bombay Stock Exchange (BSE) on April 16, 2021, with the promoter group, comprising the Lodha family and their respective investment vehicles, owning around an 82.2% stake. The company launched QIP on December 07, 2022 which remained open till December 09, 2022. The proceeds of the QIP will be utilised to liquidate the ~7% of promoter stake from 82.2% to ~75% in line with SEBI guidelines (ahead of the Apr-2024 cut-off).

Key financial indicators (audited)

MDL Consolidated	FY2021	FY2022	H1 FY2023
Operating income	5,449	9,233	4,441
PAT	48	1,208	-660*
OPBDIT/OI	22%	24%	20%
PAT/OI	1%	13%	-15%
Total outside liabilities/Tangible net worth (times)	7.2	2.2	2.2
Total debt/OPBDIT (times)	15.0	5.3	5.9
Interest coverage (times)	1.1	3.2	3.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *One time provisioning of INR 1,177 crores (non-cash) against UK investments, in-line with expected realization from the UK, resulted in lower reported PAT; all ratios as per ICRA's calculations

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					December 12, 2022	October 25, 2022			
1	Term loans	Long term	600.00	300.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-	-
2	NCD	Long term	375.00*	200.00	[ICRA]A+ (Stable)				

*includes proposed NCDs of Rs. 175.00 crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Non-Convertible Debentures	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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2023	-	FY2028	600.00	[ICRA]A+(Stable)
INE670K07174	NCD	5-Sep-22	10.45% (repo rate + 4.55%)*	5-Sep-25	99.00	[ICRA]A+(Stable)
INE670K07182	NCD	29-Sep-22	9.74% (repo rate + 3.84%)*	29-Sep-25	101.00	[ICRA]A+(Stable)
-	Proposed NCD	-	-	-	175.00	[ICRA]A+(Stable)

Source: Company; * as on September 30, 2022

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	MDL Ownership	Consolidation Approach
Macrotech Developers Limited	100% (rated entity)	Full Consolidation
Anantnath Constructions and Farms Pvt. Ltd.	100.00%	Full Consolidation
Apollo Complex Pvt. Ltd.	100.00%	Full Consolidation
Bellissimo Constructions and Developers Pvt. Ltd.	100.00%	Full Consolidation
Bellissimo Digital Infrastructure Development Management Pvt. Ltd.	100.00%	Full Consolidation
Bellissimo Digital Infrastructure Investment Management Pvt. Ltd.	100.00%	Full Consolidation
Bellissimo Estate Pvt. Ltd.	100.00%	Full Consolidation
Brickmart Constructions And Developers Pvt. Ltd.	100.00%	Full Consolidation
Center for Urban Innovation	100.00%	Full Consolidation
Cowtown Infotech Services Pvt. Ltd.	100.00%	Full Consolidation
Cowtown Software Design Pvt. Ltd.	100.00%	Full Consolidation
Digirealty Technologies Pvt. Ltd.	100.00%	Full Consolidation
Homescapes Constructions Pvt. Ltd.	100.00%	Full Consolidation
Kora Constructions Pvt. Ltd.	100.00%	Full Consolidation
Lodha Developers International (Netherlands) B. V	100.00%	Full Consolidation
Lodha Developers International Ltd.	100.00%	Full Consolidation
Lodha Developers U.S. Inc.	100.00%	Full Consolidation
Luxuria Complex Pvt. Ltd.	100.00%	Full Consolidation
MMR Social Housing Pvt. Ltd.	100.00%	Full Consolidation
National Standard (India) Ltd.	73.94%	Full Consolidation
Odeon Theatres and Properties Pvt. Ltd.	100.00%	Full Consolidation
One Place Commercials Pvt. Ltd.	100.00%	Full Consolidation
Palava City Management Pvt. Ltd.	100.00%	Full Consolidation
Palava Induslogic 4 Pvt. Ltd.	100.00%	Full Consolidation
Palava Industrial and Logistics Park Pvt. Ltd.	100.00%	Full Consolidation

Company Name	MDL Ownership	Consolidation Approach
Palava Institute of Advanced Skill Training	100.00%	Full Consolidation
Primebuild Developers and Farms Pvt. Ltd	100.00%	Full Consolidation
Renover Green Consultants Pvt. Ltd.	100.00%	Full Consolidation
Roselabs Finance Ltd.	74.25%	Full Consolidation
Sanathnagar Enterprises Ltd.	72.70%	Full Consolidation
Simtools Pvt. Ltd.	49.85%	Full Consolidation
Sitaldas Estate Pvt. Ltd.	100.00%	Full Consolidation
Thane Commercial Tower A Management Private Limited	100.00%	Full Consolidation
Kora Constructions Pvt. Ltd. (upto November 21, 2021)	-	Equity Method
Altamount Road Property Private Limited	49.00%	Equity Method
Lodha Developers UK Ltd. & its subsidiaries	51.00%	Equity Method
Palava Induslogic 2 Pvt. Ltd	100.00%	Equity Method
Palava Induslogic 3 Pvt. Ltd.	100.00%	Equity Method
Bellissimo Buildtech LLP	100.00%	Equity Method

Source: MDL annual report FY2022

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