

September 30, 2022 <sup>(Revised)</sup>

## 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	1,100.00	374.41	[ICRA]BBB (Stable); reaffirmed
Long-term Non-fund based	100.00	25.00	[ICRA]BBB (Stable); reaffirmed
Long-term Unallocated	0.00	800.59	[ICRA]BBB (Stable); reaffirmed
<b>Total</b>	<b>1,200.00</b>	<b>1,200.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation favourably factors in M3M India Private Limited's (M3M India or the Group<sup>1</sup>) established track record of more than a decade in the real estate industry, with demonstrated project execution capabilities and strong brand image in the Gurugram real estate market. The Group has a diversified product portfolio, with a healthy mix of commercial and residential projects across Gurugram. Despite the pandemic-led disruptions in FY2022 and FY2021, the Group demonstrated healthy operational performance with steady sales volumes and growth in collections coupled with completion of various projects. The Group recorded sales of Rs. 3,345 crore and collections of Rs. 3,500 crore in FY2022. As on June 30, 2022, 11.2 million square feet (msf) of area is under development, of which 52% has been sold. However, ICRA notes that some of the sales were supported by marketing schemes, such as Port Your Property (PYP), buyback and assured returns which could impact future cash flows and profitability, affecting the surplus generated by the Group. However, the Group has not done any sales under the PYP and buyback schemes in FY2022 as well as YTD FY2023, and expects the reliance on such schemes to reduce going forward. The Group has a strong launch pipeline viz. Route 65, SCO 114, M3M Corner Walk (Phase 2), among others. At the Group level, the liquidity profile remains healthy, with consolidated cash and equivalents of Rs. 743.4 crore as on June 30, 2022. An undrawn line of credit of around Rs. 200 crore lends adequate near term support to the Group's liquidity profile. The cash flow adequacy ratio, on an aggregate basis, as of June 2022 stood at 78% on the back of considerable committed receivables of around Rs. 4,000 crore.

However, the rating continues to be constrained by the Group's exposure to high geographical concentration risk with most of its ongoing projects and land bank located in the National Capital Region (NCR), particularly in Gurugram. The rating factors in the Group's exposure to execution and marketing risks associated with the unsold area, in addition to the ongoing and planned launches. While the sales response to the Group's projects has been encouraging in the past, any decline in demand may adversely impact the cash flow position. Nevertheless, the Group's long and established track record in NCR provides comfort. ICRA also notes that the Group has reported significant net losses over the years, on account of large amortisation expenses, as a result of which the net worth has been on a declining trend. The rating factors in the increase in the Group's consolidated debt to Rs. 1,692 crore as on August 31, 2022 from Rs. 1,354 crore as on June 30, 2021, owing to large debt-funded land acquisitions in Gurugram and Noida. The rating is also constrained by the refinancing risk (including

<sup>1</sup> ICRA has taken a consolidated approach for M3M Group (M3M) which includes its subsidiaries that are involved in real estate business. Please refer to pages 3 and 6 for analytical approach and list of entities consolidated respectively

acquisition debt) with significant scheduled debt repayments over the medium term. Any slowdown in sales and collections may heighten the refinancing risk.

The Group plans to further shore up its land bank in the medium term, which can result in an increase in debt levels. Nevertheless, on the back of healthy cash flow from operations, the Net debt/CFO<sup>2</sup> is likely to remain below 2.5 times in FY2023 based on ICRA's estimates. ICRA also notes that one of the debt-funded land acquisition in Noida is currently under litigation, even though company has taken over the debt pertaining to the same. In case of protracted litigation or adverse legal outcome, the debt availed for the acquisition may put pressure on the Group's debt protection metrics. ICRA also notes the issues and allegations raised in certain media articles regarding M3M Group's dealings with Ireo Private Limited and MGF Developments Limited.

The real estate sector is marked by 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 render the company's sales vulnerable to any downturn in demand.

The Stable outlook on the rating reflects ICRA's opinion that M3M India will continue to benefit from its long and established track record, its healthy sales, execution and collection velocity, and comfortable liquidity position. ICRA will continue to monitor any large investment in land bank and its impact on the Group's liquidity and leverage position.

## Key rating drivers and their description

### Credit strengths

**Leading real-estate developer in Gurgaon** – The M3M Group has an established track record of more than a decade in the real estate industry, with demonstrated project execution capabilities and strong brand image in the Gurugram market. The Group has a diversified product portfolio, with a healthy mix of commercial and residential projects across Gurugram.

**Healthy sales velocity and collections** – The Group reported healthy bookings in FY2022, with sales of Rs. 3,345 crore and improved collections worth around Rs. 3,500 crore in FY2022. The healthy growth in sales and collections are attributable to its comfortable delivery track record and product acceptance in the Gurugram real estate market. The cash flow adequacy ratio, on an aggregate basis, as of June 2022 stood at 78% on the back of considerable committed receivables of around Rs. 4,000 crore.

**Diversified product portfolio** - The Group has a diversified product portfolio, with a mix of commercial and residential projects across Gurgaon. It has completed more than ~15.5 msf of development. At present, the Group is developing 13 residential and commercial projects, spanning ~11.2 msf and has demonstrated project execution capabilities and strong brand image in Gurugram real estate market.

### Credit challenges

**Increase in leverage on account of debt-funded land acquisition** – In FY2022, the Group had undertaken debt-funded land acquisition leading to increase in debt levels. Out of the total consolidated debt outstanding of Rs. 1,692 crore as of August 2022, the acquisition debt alone contributes to around 50%. The Group plans to further shore up its land bank in the medium term, which can result in increased debt levels. Nevertheless, based on ICRA's estimates, the Net debt/CFO is likely to remain below 2.5 times in FY2023 on the back of healthy cash flow from operations. ICRA notes that one of the debt-funded land acquisition in Noida is currently under litigation, even though company has taken over the debt pertaining to the same. In

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<sup>2</sup> Net debt: Gross debt minus total cash and cash equivalents. CFO: Cash flow from operations (Operational surplus before debt servicing and land payments)

case of protracted litigation or adverse legal outcome, the debt availed for the acquisition may put pressure on the Group's debt protection metrics.

**Losses at net level and vulnerability of surplus to high cost marketing schemes** - The Group has reported significant net losses over the years, on account of large amortisation expenses. As a result, the net worth has been on a declining trend. ICRA also notes that the Group had booked sizeable sales under marketing schemes, such as PYP, buyback and assured returns, which could impact its future cash flows and profitability, affecting the surplus generated by the Group. However, the Group has not done any sales under the PYP and buyback schemes in FY2022 as well as YTD FY2023, and expects the reliance on such schemes to reduce going forward.

**Geographically concentrated portfolio and exposure to funding and execution risks-** The Group has high geographical concentration as the entire sales is from the Gurugram market. Any slowdown in sales in the city could adversely impact the Group's sales and collections and make the Group vulnerable to timely and adequate fresh debt tie-ups. The rating factors in the exposure to high execution and marketing risks associated with the unsold area and significant ongoing and planned projects.

**Exposure to risks and cyclical in real estate sector in India** – The real estate sector is marked by 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 render the company's sales vulnerable to any downturn in demand.

### Liquidity position: Adequate

At the Group level, the liquidity profile remains adequate, with consolidated cash and equivalents of Rs. 743.4 crore as on June 30, 2022. In addition, the liquidity position is supported by the cash flow adequacy ratio of 78%, unencumbered receivables from the ongoing and completed projects of over Rs. 8,000 crore as on June 2022, coupled with an undrawn line of credit of around Rs. 200 crore. The estimated cash flow from operations are adequate to meet the scheduled debt repayments of Rs. 300 crore and Rs. 495 crore in FY2023 and FY2024, respectively.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the rating if the Group is able to meaningfully reduce the leverage and the exposure to refinancing risks arising from debt related to land acquisition while maintaining its sales and execution momentum.

**Negative factors** – Negative pressure on the rating could arise in case of decline in sales or collections, which adversely impacts the liquidity, leverage or cash flow adequacy ratio. The rating may also be downgraded in case of further increase in leverage on account of debt funded land acquisition.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Approach - Consolidation</a> <a href="#">Rating Methodology for Real Estate Entities</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidation

## About the company

M3M India, 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 26.7 msf across various sectors in Gurugram, Haryana. The Group has presence across residential, commercial and retail segments of real estate and has a presence across multiple micro markets in the city.

## Key financial indicators (audited)

Consolidated	FY2020	FY2021	FY2022 <sup>^</sup>
Operating Income (Rs. crore)	848.2	1,643.9	1,553.6
PAT (Rs. crore)	-408.2	-102.9	-182.8
OPBDIT/OI (%)	8.2%	29.9%	23.7%
PAT/OI (%)	-48.1%	-6.3%	-11.8%
Total Outside Liabilities/Tangible Net Worth (times)	3.8	3.98	2.5
Total Debt/OPBDIT (times)	21.9	2.1	3.3
Interest Coverage (times)	0.3	1.9	1.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; <sup>^</sup>FY2022 are standalone provisional

Source: Company data; ICRA research

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

## Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as on Aug 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020		
				September 30, 2022	June 11, 2021	-	24-Jan-2020	5-Apr-2019	
1	Fund-based Limits	Long Term	374.41	374.41	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Non-fund based Limits	Long Term	25.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Unallocated	Long Term	800.59	-	[ICRA]BBB (Stable)	-	-	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Limits	Simple
Non-fund-based Limits	Very Simple
Unallocated	Not applicable

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
-	Term loan	FY2017	-	FY2025	374.41	[ICRA]BBB (Stable)
-	Bank Guarantee	-	-	-	25.00	[ICRA]BBB (Stable)
-	Unallocated	-	-	-	800.59	[ICRA]BBB (Stable)

Source: Company

**Annexure II: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
Adol Infratech Private Limited	100.00%	Full Consolidation
Afresh Builders Private Limited	100.00%	Full Consolidation
Benchmark Infotech Private Limited	100.00%	Full Consolidation
Bloosom Probuild Private Limited	100.00%	Full Consolidation
Bonus Builders Private Limited	100.00%	Full Consolidation
Consolidate Relators Private Limited	100.00%	Full Consolidation
Gama Buildwell Private Limited	100.00%	Full Consolidation
Generous Relators Private Limited	100.00%	Full Consolidation
Gentle Relators Private Limited	100.00%	Full Consolidation
Glory Infracon Private Limited	100.00%	Full Consolidation
Golden Gate Propbuild Private Limited	100.00%	Full Consolidation
Hans Propcon Private Limited	100.00%	Full Consolidation
High Rise Propbuild Private Limited	100.00%	Full Consolidation
Lavish Buildmart Private Limited	100.00%	Full Consolidation
Lekh Buildtech Private Limited	100.00%	Full Consolidation
M3M Construction Private Limited	100.00%	Full Consolidation
M3M Golf Estate Private Limited	100.00%	Full Consolidation
M3M Homes Private Limited	100.00%	Full Consolidation
M3M India Infrastructures Private Limited	100.00%	Full Consolidation
M3M India Projects Private Limited	100.00%	Full Consolidation
Moonlight Infracon Private Limited	100.00%	Full Consolidation
Nice Realcon Private Limited	100.00%	Full Consolidation
Rapid Infracon Private Limited	100.00%	Full Consolidation
Roshni Builders Private Limited	100.00%	Full Consolidation
Skyline Propcon Private Limited	100.00%	Full Consolidation
Union Buildmart Private Limited	100.00%	Full Consolidation
Zenith Realtech Private Limited	100.00%	Full Consolidation
M3M Residency Private Limited	100.00%	Full Consolidation
Olive Realcon Private Limited	90.00%	Full Consolidation
Manglam Multiplex Private Limited	26.67%	Full consolidation^
Trigno Land Developers LLP	50.00%	Limited consolidation

Source: Company annual report FY2021; ^the debt is guaranteed by M3M India Private Limited

## Corrigendum

Rationale dated September 30, 2022, has been corrected with revisions as detailed below:

- “Annexure II”, Page number 7: The consolidation approach mentioned for Mangalam Multiplex Private Limited as “Limited Consolidation” corrected to “Full Consolidation”.

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