

February 10, 2023

## MGM Consulting Services Private Limited: Rating confirmed as final for Rs. 105.00-crore NCD programme; rating reaffirmed for other facilities

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Non-convertible debenture (NCD) programme	428.50	428.50	[ICRA]AAA(CE) (Stable); reaffirmed
Non-convertible debenture (NCD) programme	150.00	105.00	[ICRA]AAA(CE) (Stable); provisional rating confirmed as final
		45.00	Provisional [ICRA]AAA(CE) (Stable); reaffirmed
<b>Total</b>	<b>578.50</b>	<b>578.50</b>	

Rating in the absence of pending actions/documents	[ICRA]BB
Rating Without Explicit Credit Enhancement	[ICRA]BB

\*Instrument details are provided in Annexure-I

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is to be backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The table above also captures ICRA's opinion on (a) the rating if the pending actions/documents are not completed and (b) the rating without factoring in the proposed explicit credit enhancement

### Rationale

ICRA has confirmed the rating assigned to the Rs 105.00-crore NCDs as tabulated above. The finalisation of the rating follows the fulfilment of all the conditions under the structure as mentioned to ICRA and the executed documentation being in line with the required terms of the structure. ICRA has also reaffirmed the [ICRA]AAA(CE) rating outstanding on the Rs. 428.50-crore NCD programme and reaffirmed the provisional [ICRA]AAA(CE) rating outstanding on the Rs. 45.00-crore NCD programme. The ratings carry a Stable outlook. The provisional rating of Rs. 45.00 crore is subject to the fulfilment of all the conditions under the structure and the review of the transaction documents by ICRA.

All the above final/provisional ratings for MGM Consulting Services Private Limited (MGM) is based on the strength of an underwriting commitment from Axis Capital Limited (ACL) for the rated non-convertible debenture (NCD) programmes. The underwriting commitment will be unconditional and irrevocable and will have a well-defined payment mechanism to ensure the timely servicing of the debt obligations. The ratings draw comfort from ACL's strong parentage as it is a subsidiary of Axis Bank Limited (Axis Bank; rated [ICRA]AAA(Stable)/[ICRA]A1+).

ACL shares a common brand name (Axis) and has significant operational linkages with its parent, including managerial deputations. As one of the leading investment bankers and institutional brokers in India, ACL is strategically important to Axis Bank. ICRA expects Axis Bank to continue to provide ACL with management bandwidth and support. ACL's capitalisation profile remains strong with a net worth of Rs. 1,048 crore (~Rs. 765 crore, excluding fair value gains on strategic investments) as of H1 FY2023 end to support its IB and broking businesses. ACL has certain underwriting commitments for structured transactions done in the past, but the same remains comfortable in comparison to its net worth.

## Adequacy of credit enhancement

For assigning the ratings, ICRA has assessed the attributes of the terms of ACL's underwriting commitment in favour of the said instrument. The underwriting commitment would be legally enforceable, irrevocable and unconditional and covers the entire amount and tenure of the rated instruments with a well-defined payment mechanism.

As per the transaction terms, the equity shares of Gharda Chemicals Limited (GCL) held by MGM would be available as collateral against the rated NCDs. The proceeds from pre-defined liquidity events such as the initial public offering (IPO) of GCL or a private placement or a share buyback would be used to redeem the NCDs. If the NCDs are not redeemed by the call option date (i.e. 30 months after initial issuance) and the call option is not exercised or any other event deemed as an 'event of default' as per the transaction documents, ACL would have the right to seek a buyer to sell the shares and thereby redeem the NCDs from the proceeds.

Given these attributes, ACL's underwriting commitment is adequately strong to result in an enhancement in the rating of the said instruments to [ICRA]AAA(CE) against the unsupported (without explicit support) rating of [ICRA]BB. Any deterioration in ACL's credit profile and its linkage with its parent or failure to meet its underwriting obligation as per the transaction documents will have a bearing on the rating of the aforesaid NCD programmes.

## Salient covenants of the rated facility

- » Mandatory redemption of the NCDs in case of an occurrence of any of the pre-defined liquidity events, including IPO of GCL, share buyback or private placement of shares.
- » Security cover of minimum 4x of the outstanding principal amount of NCDs to be maintained at all times through pledge of GCL shares held by MGM
- » No change in shareholding of MGM without the prior written consent of the debenture holders and ACL
- » No equity dilution or capital structure changes by MGM unless the indebtedness has been taken for redemption of the NCDs
- » No incremental external debt to be availed by the issuer post this NCD issue unless there is prior consent of ACL and lender
- » The Rs. 533.50-crore programme would have a scheduled tenor of 36 months from the deemed date of allotment (of initial issuance); however, the NCDs would have a call option at the end of 30 months from the deemed date of allotment (of initial issuance).
- » The Rs. 45-crore NCD programme would have identical call option date and maturity date as the Rs. 533.50-crore NCD programme.

## Key rating drivers and their description

### Credit strengths

**Presence of interest service reserve account (ISRA), underwriting commitment from ACL and payment mechanism** – The NCDs would be backed by an underwriting commitment from ACL that would cover all the obligations that may arise on the rated NCDs. The underwriting commitment from ACL would be unconditional and irrevocable and would cover the entire tenure of the NCDs. For the Rs. 428.50-crore NCD programme, the issuer shall maintain an interest service reserve account (ISRA) equal to 36 months of interest payment on the principal outstanding to be created upfront and utilised on a quarterly basis to pay the NCD coupon. The ISRA will be maintained in the form of a fixed deposit/mutual fund lien marked to the debenture trustee. The Rs. 105.0-crore NCD programme (and proposed Rs. 45.0-crore NCD programme) does not have an ISRA, but these NCDs have yield payable on maturity date along with the principal.

Further, the payment mechanism is designed to ensure timely payments to the investors as per the terms of the transaction even if the issuer does not pay and the NCD redemption is made through monies due from/arranged by ACL as per the terms

of the transaction. The underwriting commitment and defined payment mechanism also cover accelerated redemption in case of any event of default.

**Strong parentage of Axis Bank** – ACL is a wholly-owned subsidiary of Axis Bank ([ICRA]AAA (Stable)/ [ICRA]A1+). ICRA takes comfort from the shared brand name (Axis) and the common board members with Axis Bank. At present, the boards of Axis Bank and ACL have two common directors - Mr. Amitabh Chaudhary (MD and CEO, Axis Bank) and Mr. Rajiv Anand (Deputy Managing Director, Axis Bank). ICRA expects Axis Bank to extend managerial and financial support to ACL, if required.

**Established track record and franchise in IB domain; strong presence in public offerings and structured transactions** – ACL is primarily engaged in the institutional broking and investment banking (IB) businesses. It offers services in the areas of institutional broking, mergers and acquisitions, private equity, structured finance and equity capital market (ECM) issuance. ACL is one of the leading ECM bankers in the domestic market and it benefits from an established client network.

ACL's capitalisation profile remains strong with a net worth of Rs. 1,048 crore (~ Rs. 765 crore, excluding fair value gains on strategic investments) as of H1 FY2023 end to support its IB and broking businesses. ACL does not have any on-balance sheet debt. It has certain underwriting commitments for structured transactions done in the past, but the same remains comfortable in comparison to its net worth.

Although the quantum of the commitments is sizeable, ICRA takes comfort from ACL's expertise in such structured transactions, with a track record of exiting ~13 transactions over the past eight years without any devolvement on them. As these structured transactions are carried out with the approval of the parent company, ICRA expects timely support from Axis Bank, if required.

### Credit challenges

**Exposed to risks inherent in capital-market related businesses** – ACL's net brokerage income accounted for ~30% of the net operating income, while the remaining income is derived from the advisory and equity capital market businesses. Therefore, ACL's revenues remain dependent on the capital markets, which are inherently volatile in nature.

### Liquidity position

#### For the [ICRA]AAA(CE) (Stable) and Provisional [ICRA]AAA(CE) (Stable) rating: Strong

The liquidity is deemed strong on the basis of the transaction structure's strength and ACL's liquidity profile, which has provided the underwriting commitment. ACL primarily requires funds for placing margins at the exchanges for its broking business. Its past performance in the structured finance business with no instances of devolvement keeps the funding requirement in the IB segment low and provides comfort. As on September 30, 2022, ACL had comfortable on-balance sheet and off-balance sheet liquidity in the form of cash and cash equivalents, sanctioned and unutilised bank lines, intra-day bank limits and bank guarantees. Also, while ACL remains largely debt free on the reporting date, ICRA notes that the fund-based limits are utilised during the month.

ICRA expects ACL to leverage the established client network and franchise in the IB business to liquidate the securities if the underwriting obligation falls due on ACL, thus keeping the funding requirement low. Further, support from Axis Bank is expected, if required. Thus, ACL's overall liquidity has remained strong. The NCDs would also have liquidity support in the form of the ISRA to be created upfront.

#### For the [ICRA]BB rating: Stretched

MGM's liquidity is stretched, characterised by no operations as on date and minimal free cash flows. The company, as on date, has also availed an interest-free loan of Rs. 10.2 crore from a corporate entity and of the planned NCD programme of Rs. 578.5 crore, Rs. 533.5 crore has been placed. Additionally, there is another NCD of Rs 30.00 crore that has been issued by the company (not rated by ICRA). MGM has no capital expenditure plans, going forward. While the interest payment on the NCD

programme will be covered by ISRA or to be paid during the redemption for the Rs. 105-crore NCD placed and the proposed Rs. 45.0-crore NCD programme, ICRA expects support from the promoters and related entities, for the principal payment.

## Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – The rating could be revised if the credit profile of ACL’s parent (i.e., Axis Bank) deteriorates or their linkage weakens. The rating will also be under pressure if ACL fails to meet its underwriting obligation as per the transaction documents.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Brokerage Industry</a> <a href="#">Approach for Rating Debt Instruments Backed by Third-party Explicit Support</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

## Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon:

1. Share Agreement (capturing the Underwriting Commitment provided by ACL)
2. Debenture Trustee Appointment Agreement
3. Share Pledge Agreement
4. Escrow Agreement
5. Debenture Trust Deed
6. Legal Opinion
7. Any other document as part of the transaction documents

## Validity of the provisional rating

In case the debt instrument/borrowing facility for which a provisional rating has been assigned is subsequently issued, the provisional rating will have to be converted into a final rating within 90 days (validity period) from the date of issuance of the debt instrument/date of availing the borrowing facilities. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into final in circumstances where the rated entity expressly indicates its intention to complete the pending actions/documents in the near term. In no circumstance shall the validity period be extended beyond 180 days from the date of issuance. For further details, refer to ICRA’s Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

## Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed by the entity within 90 days (validity period) from the date of issuance, the provisional rating will be converted into final upon a review of the required actions/documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating

in the absence of the pending actions/documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

## About the company

MGM Consulting Services Private Limited was incorporated in 2010. At present, the company has no operations and holds a ~7.1% stake in Gharda Chemicals Limited, a leading agrochemical company in India. The shareholders of MGM are Mr. Nilesh Kulkarni (95%), Director at Gharda Chemicals Limited, and Mr. Manoj C Gandhi (5%), former Director at Gujarat Insecticides Limited (a subsidiary of Gharda Chemicals Limited).

### Key financial indicators (audited; as per Ind-AS)

MGM	FY2021	FY2022
Operating income (Rs. crore)	0.1	0.5
PAT (Rs. crore)	0.1	0.2
OPBDIT/OI (%)	79.4%	50.6%
PAT/OI (%)	79.4%	37.5%
Total outside liabilities/Tangible net worth (times)	61.7	695.2
Total debt/OPBDIT (times)	142.7	998.9
Interest coverage (times)	6,059.3	10,624.5

Source: Company, ICRA Research; All ratios as per ICRA calculations, NM – Not meaningful, PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

## About the underwriting commitment provider

ACL is a wholly-owned subsidiary of Axis Bank Limited (Axis Bank) and is engaged in the investment banking and institutional equities broking business. It is one of the leading institutional brokerage houses among domestic brokers and has also established a credible position in the investment banking segment in India. ACL and Axis Bank have two common directors, namely Mr. Amitabh Chaudhary (MD and CEO, Axis Bank) and Mr. Rajiv Anand (Deputy MD, Axis Bank).

In FY2022, ACL reported a profit after tax (PAT) of Rs. 189.3 crore on an operating income of Rs. 502.9 crore compared with a PAT of Rs. 138.2 crore on an operating income of Rs. 391.6 crore. ACL's capitalisation profile was characterised by a net worth of Rs. 982.3 crore and the total assets stood at Rs. 2,336.5 crore as on March 31, 2022.

### Key financial indicators (audited)

Axis Capital Limited	FY2020	FY2021	FY2022	H1FY2023^
	Ind-AS	Ind-AS	Ind-AS	Ind-AS
Net brokerage income (Rs. crore)	104.6	124.5	135.6	115.5*
Fee income (other than broking; Rs. crore)	129.82	240.9	334.3	95.3
Net interest income (Rs. crore)	20.0	20.0	22.2	14.0
Other non-interest income (Rs. crore)	8.9	4.9	6.3	
Net operating income (NOI; Rs. crore)	263.3	390.3	501.9	224.8
Total operating expenses (Rs. crore)	161.8	196.0	244.3	135.0 <sup>®</sup>
Profit before tax (Rs. crore)	100.9	194.7	258.0	86.7
Profit after tax (PAT; Rs. crore)	66.6	138.2	189.3	64.2
Net worth (Rs. crore)	398.0	519.2	982.3	1,048.1
Borrowings (Rs. crore)	1.0	0.4	1.3	1.1

<b>Gearing (times)</b>	0.0	0.0	0.0	0.0
<b>Cost-to-income ratio (%)</b>	61.4%	50.2%	48.7%	60.0% <sup>@</sup>
<b>Return to net worth (%)</b>	16.7%	26.6%	25.2%	12.6%
<b>PAT/NOI (%)</b>	25.3%	35.4%	37.7%	28.5%

Source: Company, ICRA Research; All ratios as per ICRA calculations; <sup>^</sup>Provisional; <sup>\*</sup>Gross; <sup>@</sup> Includes sub-brokerage

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

**Any other information: None**

### Rating history for past three years

Sr. No.	Instrument	Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Current rating (FY2023)						Chronology of rating history for the past 3 years		
					Date & rating in FY2023						Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					February 10, 2023	December 23, 2022	December 20, 2022	October 17, 2022	August 30, 2022	April 12, 2022			
1	NCD	Long Term	262.50	262.50	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	Provisional [ICRA]AAA (CE) (Stable)	-	-
2	NCD	Long Term	166.00	166.00	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	Provisional [ICRA]AAA (CE) (Stable)	Provisional [ICRA]AAA (CE) (Stable)	Provisional [ICRA]AAA (CE) (Stable)	-	-
3	NCD	Long Term	105.00	102.00	[ICRA]AAA (CE) (Stable)	Provisional [ICRA]AAA (CE) (Stable)							
4	NCD	Long Term	45.00	-	Provisional [ICRA]AAA (CE) (Stable)	Provisional [ICRA]AAA (CE) (Stable)							
5	NCD	Long Term	11.50	-			Provisional [ICRA]AAA (CE) (Stable); Withdrawn	Provisional [ICRA]AAA (CE) (Stable)	Provisional [ICRA]AAA (CE) (Stable)				

### Complexity level of the rated instrument

The Complexity Indicator mentioned in the table is based on ICRA's assumptions and is subject to change when the terms are eventually finalised for the instruments yet to be placed.

Instrument	Complexity Indicator
NCD	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 the 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 No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE257N07042	NCD	Mar-22/Sep-22*	9.65% p.a.p.q.	Mar-25	428.50	[ICRA]AAA(CE) (Stable)
INE257N07059	NCD	Jan-23	10% YTM (annualised)	Mar-25	105.00	[ICRA]AAA(CE) (Stable)
NA	NCD	NA	NA	NA	45.00	Provisional [ICRA]AAA(CE) (Stable)

\* Issuance of Rs. 262.50 crore was done in Mar-22 and Rs. 166.00 crore in Sep-22

Source: Company

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

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