July 11, 2023 (Revised)

Macrotech Developers Limited: Fresh rating assigned to proposed NCD programme; rating reaffirmed for existing NCDs and 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	400.00	400.00	[ICRA]A+ (Positive); reaffirmed
Long-term/ Short -term – Unallocated Limits	200.00	200.00	[ICRA]A+ (Positive)/ {ICRA]A1; reaffirmed
Non-Convertible Debentures	375.00	375.00	[ICRA]A+ (Positive); reaffirmed
Non-Convertible Debentures	50.00	50.00	[ICRA]A+ (Positive); reaffirmed
Non-Convertible Debentures	-	803.00	[ICRA]A+ (Positive); assigned
Total	**1,025.00**	**1,828.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for Macrotech Developers Limited (MDL) factors in strong operating performance in FY2023, marked by healthy growth in collections and cash flows from operations (CFO), which has supported the reduction in debt levels. MDL's operating performance is expected to remain healthy in FY2024, supported by healthy end-user demand, a strong launch pipeline and healthy affordability, while maintaining a reducing debt trajectory.

In FY2023, MDL reported strong pre-sales and collections that were higher by 34% YoY at Rs. 12,064 crore and by 23% YoY at Rs. 10,606 crore, respectively. The gross debt reduced by 21% YoY to around Rs. 9,100 crore as on March 31, 2023, supported by healthy CFO, resulting in an improvement in leverage with decline in gross debt/CFO[1] to 1.8 times as of March 2023 from 2.7 times as of March 2022. ICRA is given to understand that the company will maintain liquidity of Rs. 1,500 crore to meet any exigencies, factoring in the liquidity buffer, the net debt to CFO stood at 1.4 times as of March 2023. The company proposes to raise Rs. 860 crore of NCD[2], which would be primarily utilised towards refinancing the existing high-cost debt. ICRA estimates the gross debt/ CFO to improve further to around 1.5 times by March 2024, led by further reduction in debt levels. The ratings continue to factor in the strong leadership position of MDL in the Mumbai and Thane residential real-estate markets as well as the Group's established track record of over four decades, underpinned by around 94 million square feet (sq ft) of deliveries till date.

MDL enjoys healthy pre-sales backed by its diversified product segment and strong reputation. Pre-sales in the residential sector are expected to remain strong supported by sizeable unsold inventory of around Rs. 30,000 crore as on March 31, 2023 and a new launch pipeline of 10.6 million sq ft in FY2024. Through historic land acquisitions, MDL has access to sizeable land parcels (4,300 acres as of March 31, 2023, of which 300 acres is dedicated for digital infrastructure) providing significant potential for future project development.

[1] *Cash flow from operations does not include repatriation from UK joint ventures*

[2] *Includes NCD of Rs. 57 crore rated earlier but not yet placed and current rated NCD of Rs. 803 crore*

The ratings are, however, constrained by the moderate cash flow cover[3] of 45% (as of December 2022) from the committed receivables 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 an estimated value of around Rs. 9,680 crore and Rs. 20,120 crore, respectively, as on March 31, 2023) and comfortable sales velocity with years-to-sell of 2–3 years across most projects. The total debt/net working capital for MDL was moderate at around 0.9 time as on March 31, 2023 from over 1.2 times as on March 31, 2022, which in turn is attributable to historical debt-backed land acquisitions. ICRA notes that despite 250 bps increase in repo rate during FY2023, the company has been able to achieve reduction in its overall cost of borrowing to 9.8% as on March 31, 2023 from 12.3% as on March 31, 2021; although it remains on the higher side. The ratings also factor in execution and market risks resulting from the large expansion plans. Further, the company is exposed to the cyclicality in the residential real estate market.

The Positive outlook on the long-term rating reflects ICRA's opinion that MDL will continue to benefit from its strong reputation, its healthy operating performance backed by strong launch pipeline and healthy end-user demand. Further, the company is expected to continue the debt reduction trajectory, which along with healthy sales and collections are likely to result in improved leverage metrics.

Key rating drivers and their description

Credit strengths

Leading real estate developer with track record of 40 years, mainly 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 March 31, 2023, the company had developed around 94 million sq ft and had ~28 million sq ft of ongoing developable area. MDL has an established presence in Mumbai and Thane, since most of its developed projects have been largely concentrated in these markets. The company enjoys market leadership position in these micro-markets based on FY2023 pre-sales. Through historic land acquisitions, MDL has access to sizeable land parcels (4,300 acres as of March 2023, of which 300 acres is dedicated for digital infrastructure). The company's new project launch pipeline for FY2024 stands at 10.6 million sq ft, with an estimated gross development value of Rs 12,940 crore across 20 projects.

Healthy pre-sales backed by diversified portfolio across 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 ~9% of collections in FY2023 and are expected to generate around 15% of the CFO in FY2024. The company has reported strong pre-sales of Rs. 12,064 crore in FY2023, which is expected to further grow to Rs. 14,500 crore in FY2024 with a healthy mix across different product segments and price points.

Significant reduction in leverage in recent years– The rating draws comfort from 21% YoY reduction in gross debt to Rs. 9,100 crore as on March 31, 2023 from Rs. 11,558 crore as on March 31, 2022, supported by healthy cash flows from operations, in line with the management's guidance. Consequently, the gross debt to CFO for MDL's India operations declined to 1.8 times as on March 31, 2023 from 2.7 times as on March 31, 2022. ICRA is given to understand that the company will maintain liquidity of Rs. 1,500 crore to meet any exigencies, factoring in the liquidity buffer, the net debt to CFO stood at 1.4 times as of March 2023. The company proposes to raise Rs. 860 crore of NCD[4], which would be primarily utilised towards refinancing the existing high-cost debt. ICRA estimates the gross debt/ CFO to improve further to around 1.5 times as on March 2024, led by further

[3] *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)*

[4] *Includes NCD of Rs. 57 crore rated earlier but not yet placed and current rated NCD of Rs. 803 crore*

reduction in debt levels. Any significant borrowings resulting in a deviation from the stated debt reduction trajectory would be a key rating monitorable.

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 45% as on March 31, 2023, indicating high dependence on sustaining healthy sales momentum. The risk is partly mitigated by its sizeable RTMI and ongoing inventory (with estimated value of around Rs. 9,680 crore and Rs. 20,120 crore, respectively, as on March 31, 2023) as well as comfortable sales velocity with years-to-sell time span of 2–3 years across most projects. There is healthy movement in RTMI in FY2023, corresponding to MDL's legacy projects.

Large expansion plans exposing MDL to execution and market risks – MDL has significant plans of expanding its ongoing portfolio to maintain its growth momentum and strengthen its market presence in new micro-markets of Mumbai Metropolitan Region (MMR) and Pune. As on March 31, 2023, the pipeline for future project launches stood at over 75 million sq ft, exposing the company to execution and market risks. The 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 and 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 cyclicality and regulatory risks in the real estate sector – The real estate sector is cyclical and has a highly fragmented market structure because of a large number of regional players. In addition, being a cyclical industry, the 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 against scheduled repayments of around Rs. 1,600 crore in FY2024. The company's liquidity is further supported by ~Rs. 1,550-crore unencumbered cash and liquid investments and undrawn bank lines of Rs. 1,850 crore as on March 31, 2023. Additionally, expected repatriation of Rs. 550 crore from its UK projects in FY2024 will support the company's liquidity profile.

Rating sensitivities

Positive factors – The ratings 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 lower reliance on debt funding. Specific metric for a rating upgrade will be better visibility on trajectory to achieve gross debt/CFO of 1.0 time.

Negative factors – The ratings may be downgraded if project execution, sales velocity and collections are slower-than expected in the ongoing and upcoming projects pipeline and/or significant debt-funded investments in new projects result 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
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/ LLPs, which are all enlisted in Annexure-II.

About the company

Macrotech Developers Limited, formerly known as Lodha Developers Limited, is one of the largest real estate developers in India with a market leader position in Mumbai and Thane. The company also has the largest land bank in the country, totaling over 4,300 acres as of March 31, 2023 (inclusive of its ongoing as well as planned projects). MDL is focused on residential development in the MMR, with some projects in Pune and Bengaluru. The company was listed on the Bombay Stock Exchange (BSE) on April 16, 2021.

Key financial indicators

MDL Consolidated	FY2021	FY2022	FY2023
Operating income	5,449	9,233	9,470
PAT	48	1,208	495^
OPBDIT/OI	22%	24%	22%
PAT/OI	1%	13%	5%
Total outside liabilities/Tangible net worth (times)	7.2	2.2	2.1
Total debt/OPBDIT (times)	15.0	5.3	4.4
Interest coverage (times)	1.1	3.2	4.3

Source: MDL, ICRA Research, all ratios as per ICRA calculations. PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; ^ includes one-time exceptional item i.e., provision against UK investment of Rs. 1,177 crore

Status of non-cooperation with previous CRA: Not applicable

Any other information:

For the proposed NCD of Rs. 290 crores (out of total proposed rated NCD of Rs. 860 crore), the company also faces the risk of debt acceleration due to rating linked covenants (in case the rating is downgraded by 2 notches). Upon failure to meet the covenant, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

Rating history for past three years

	Instrument	Current rating (FY2024)						Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2024	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Jul 11, 2023	Jun 20, 2023	Jun 06, 2023	Dec 12, 2022	Oct 25, 2022	-	-
1	Term loans	Long term	400.00	267.8	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-
2	Unallocated Limits	Long term and short term	200.00	-	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A+ (Positive)/ [ICRA]A1	-	-	-	-
3	NCD	Long term	375.00	368.0*	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	-	-	-
4	NCD	Long term	50.00**	-	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	-				
5	NCD	Long term	803.00^	-	[ICRA]A+ (Positive)						

**Only Rs. 368.0 crore has been placed, ** not placed, ^ proposed NCD*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term/Short-term – Unallocated Limits	Not Applicable
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	400.00	[ICRA]A+ (Positive)
NA	Unallocated Limits	NA	NA	NA	200.00	[ICRA]A+ (Positive)/[ICRA]A1
INE670K07174	NCD	Sep 05, 2022	9.95%	Sep 05, 2025	99.0	[ICRA]A+ (Positive)
INE670K07182	NCD	Sep 20, 2022	9.24%	Sep 20, 2025	101.00	[ICRA]A+ (Positive)
INE670K07190	NCD	Dec 12, 2022	9.65%	Dec 12, 2025	100.00	[ICRA]A+ (Positive)
INE670K07208	NCD	Dec 30, 2022	9.65%	June 29, 2026	68.00	[ICRA]A+ (Positive)
-	Proposed NCD	NA	NA	NA	50.00	[ICRA]A+ (Positive)
-	Proposed NCD	NA	NA	NA	7.00	[ICRA]A+ (Positive)
-	Proposed NCD	NA	NA	NA	803.00	[ICRA]A+ (Positive)

Source: Company

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

Company Name	MDL Ownership	Consolidation Approach
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
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 FY2023

Corrigendum

Document dated July 11, 2023 has been revised as detailed below:

The date of issuance, maturity date and the coupon rate for listed NCDs have been updated.

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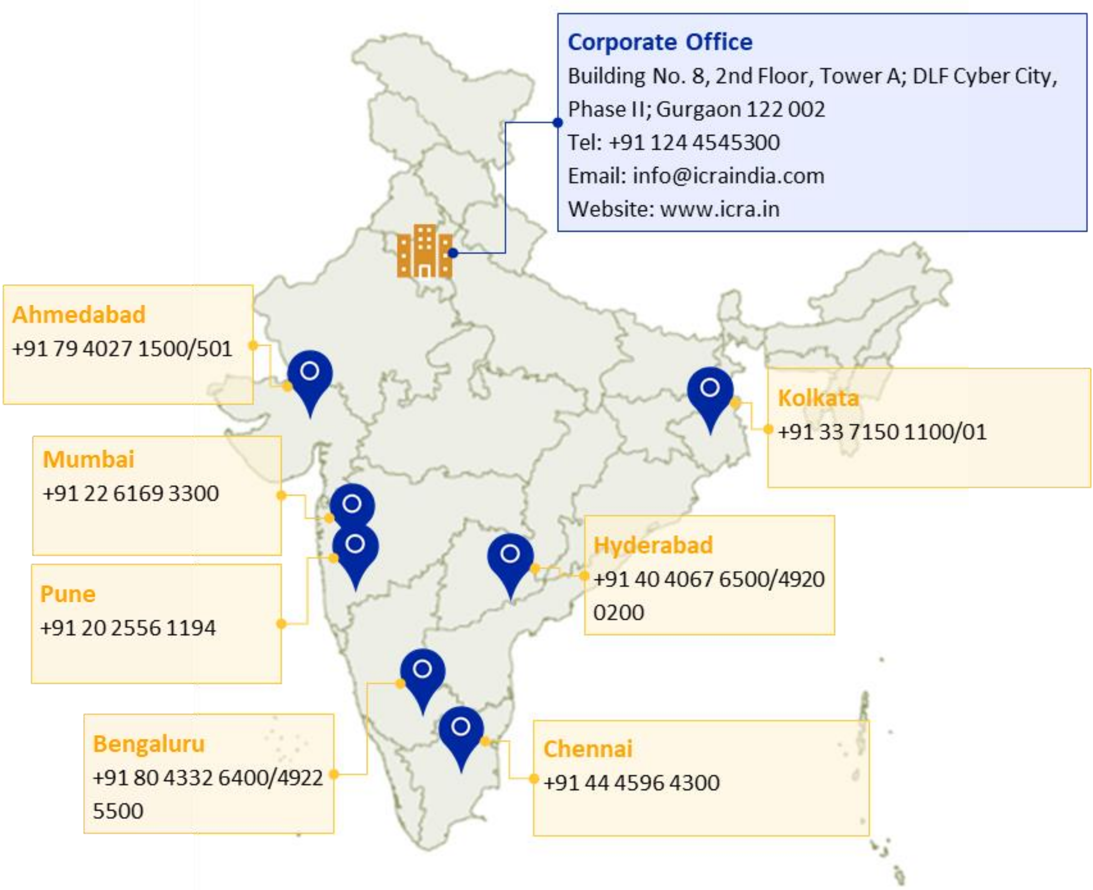

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