

January 05, 2024

MGM Consulting Services Private Limited: Rating reaffirmed and provisional rating withdrawn

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	105.00	105.00	[ICRA]AAA(CE) (Stable); reaffirmed
Non-convertible debenture (NCD) programme	45.00	0.00	Provisional [ICRA]AAA(CE) (Stable); withdrawn
Total	578.50	533.50	

Rating Without Explicit Credit Enhancement	[ICRA]BB
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*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 the rating without factoring in the proposed explicit credit enhancement.

Rationale

ICRA has reaffirmed the [ICRA]AAA(CE) rating outstanding on the Rs. 533.50-crore NCD programme and withdrawn the provisional [ICRA]AAA(CE) rating outstanding on the unplaced amount of Rs. 45.00-crore from the earlier NCD programme. The rating carries a Stable outlook. The provisional rating assigned to the proposed Rs. 45.00-crore NCD programme has been withdrawn at the request of the company (as the instrument has not been placed) and in accordance with ICRA's policy on withdrawal.

The above rating 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 is unconditional and irrevocable and has a well-defined payment mechanism to ensure the timely servicing of the debt obligations. The rating draws 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 common board members (at present, ACL's board has three representations from Axis Bank). 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. 1,181 crore (net worth adjusted for other comprehensive income was estimated to be Rs. 950 crore) as on September 30, 2023 that supports its IB and broking businesses. ACL has certain underwriting commitments for the structured transactions done in the past, but the same remains comfortable in comparison to its net worth.

Adequacy of credit enhancement

For assigning the rating, 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 the 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 if there's 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).

Key rating drivers and their description

Credit strengths

Presence of interest service reserve account (ISRA), underwriting commitment from Axis Capital Limited (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 does not have an ISRA, but these NCDs have yield payable on the 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 the money due from/arranged by ACL as per the terms of the transaction. The underwriting commitment and the defined payment mechanism also cover accelerated redemption in case of any event of default.

Strong parentage – 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, ACL's board has three representatives from Axis Bank - Mr. Amitabh Chaudhary (MD and CEO, Axis Bank), Mr. Rajiv Anand (Deputy Managing Director, Axis Bank) and Mr. Neelkanth Mishra (Chief Economist, Axis Bank). ICRA expects Axis Bank to extend managerial and financial support to ACL, if required

Established track record and franchise in investment banking (IB) with strong presence in public offering 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 benefits from an established client network.

ACL's capitalisation profile remained strong as on September 30, 2023 with a net worth of Rs. 1,181 crore (~ Rs. 950 crore, excluding fair value gains on strategic investments) that supports its IB and broking businesses. ACL does not have any on-balance sheet debt. It has certain underwriting commitments for the 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 nine years with no instance of devolvement. 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-markets related businesses - ACL's net brokerage income accounted for ~35% 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) 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 devolvement keeps the funding requirement in the IB segment low and provides comfort. As on September 30, 2023, 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 and interest-carrying loan of Rs. 125 crore from other corporate entity(s). Further, planned NCD programmes of Rs. 578.5 crore and Rs. 533.5 crore have been placed and there is no plan to place the rest of the NCDs. Another NCD of Rs. 30.00 crore 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 the ISRA or to be paid during the redemption of the Rs. 105-crore NCD placed, 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 downwards if the credit profile of ACL's parent (i.e., Axis Bank) deteriorates or its 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	Corporate Credit Rating Methodology Debt Instruments Backed by Third-party Explicit Support Rating Methodology for Entities in the Brokerage Industry Policy on Withdrawal of Credit Rating
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

MGM Consulting Services Private Limited was incorporated in 2010. It holds a ~12.7% 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)-MGM Consulting

MGM	FY2022	FY2023
Operating income	0.5	27.8
PAT	0.2	-20.7
OPBDIT/OI	50.7%	24.5%
PAT/OI	37.5%	-74.5%
Total outside liabilities/Tangible net worth (times)	693.7	-34.2
Total debt/OPBDIT (times)	995.7	102.6
Interest coverage (times)	10,658.9	0.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Source: ICRA Research, Company data

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. At present, ACL's board has three representations from Axis Bank - Mr. Amitabh Chaudhary (MD and CEO, Axis Bank), Mr. Rajiv Anand (Deputy Managing Director, Axis Bank) and Mr. Neelkanth Mishra (Chief Economist, Axis Bank).

In FY2023, ACL reported a profit after tax (PAT) of Rs. 142 crore on a net operating income of Rs. 410 crore compared with a PAT of Rs. 189 crore on an operating income of Rs. 502 crore in FY2022. In H1 FY2024, ACL reported PAT of Rs. 69 crore on NOI of Rs. 278 crore. ACL's capitalisation profile was characterised by a net worth of Rs. 1,181 crore and nil gearing as on September 30, 2023.

Key financial indicators (audited) - Axis Capital Limited

Axis Capital Limited	FY2021	FY2022	FY2023
Net brokerage income (Rs. crore)	124	136	163
Fee income (other than broking; Rs. crore)	241	334	214
Net interest income (Rs. crore)	20	22	26
Other non-interest income (Rs. crore)	5	10	7
Net operating income (NOI; Rs. crore)	390	502	410
Total operating expenses (Rs. crore)	196	244	215
Profit before tax (Rs. crore)	195	258	191
Profit after tax (PAT; Rs. crore)	138	189	142
Net worth (Rs. crore)	519	982	1,075
Borrowings (Rs. crore)	0	1	1
Gearing (times)	0.0	0.0	0.0
Cost-to-income ratio (%)	50.2%	48.7%	52.5%
Return to net worth (%)	35.4%	37.7%	34.6%
PAT/NOI (%)	30.1%	62.4%	8.9%

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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 on Jan 5, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023						Date & rating in FY2022	Date & rating in FY2021
						Jan 05, 2024	Feb 10, 2023	Dec 23, 2022	Dec 20, 2022	Oct 17, 2022	Aug 30, 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)	[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)	[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)	[ICRA]AAA (CE) (Stable)	Provisional [ICRA]AAA (CE) (Stable)	-	-	-	-	-	-
4	NCD	Long Term	45.00	-	Provisional [ICRA]AAA (CE) (Stable); Withdrawn	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 instruments

Instrument	Complexity Indicator
Non-convertible debenture (NCD) programme	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
INE257N07042	NCD	Mar-2022	9.65%	Mar-2025	428.50	[ICRA]AAA(CE) (Stable)
INE257N07059	NCD	Jan-2023	NA	Mar-2025	105.00	[ICRA]AAA(CE) (Stable)
NA	NCD	-	-	-	45.00	Provisional [ICRA]AAA(CE) (Stable); withdrawn

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not applicable

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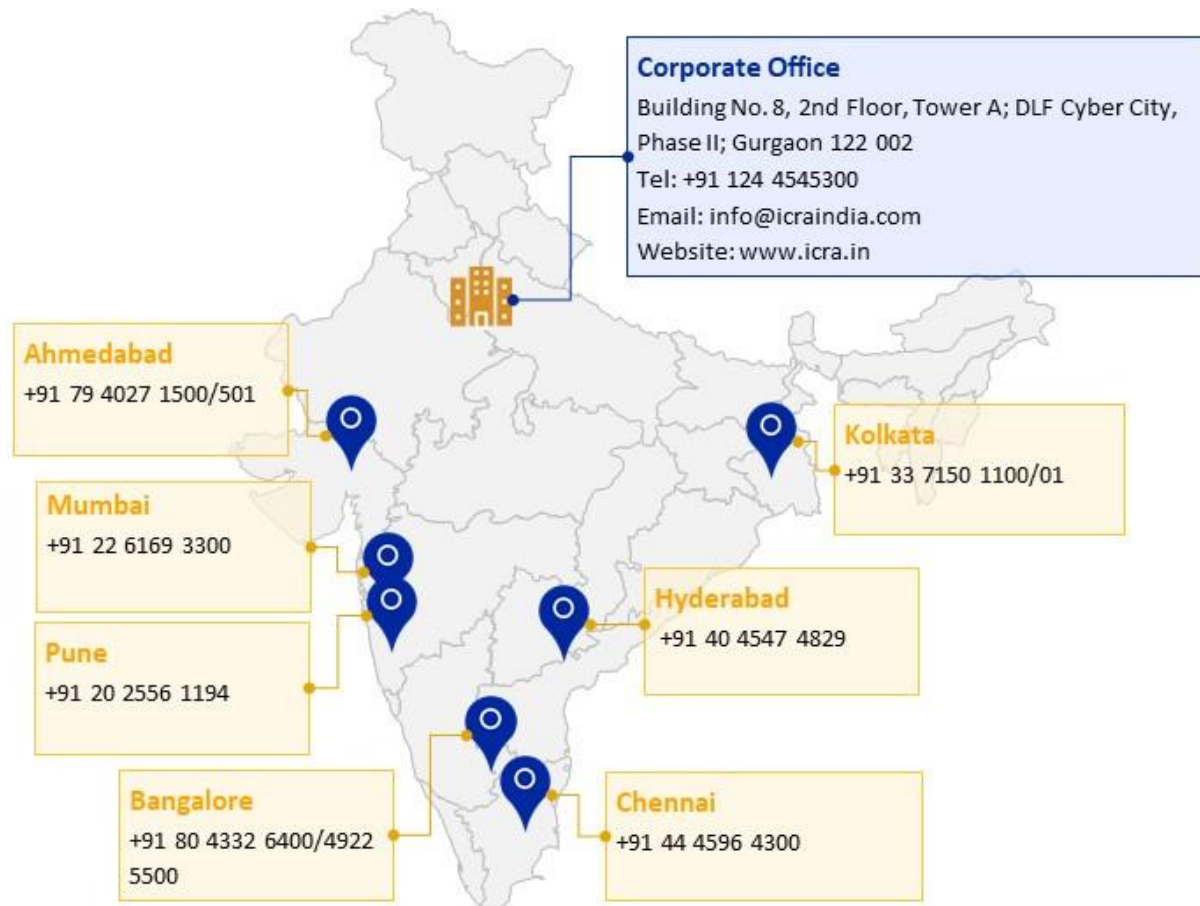
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