

## M3M India Private Limited

May 18, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based limits	200.00	600.00	[ICRA]BBB reaffirmed; outlook revised from Negative to Stable
Long-term non-fund based limits	110.00	70.00	[ICRA]BBB reaffirmed; outlook revised from Negative to Stable
<b>Total</b>	<b>310.00</b>	<b>670.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B) assigned to the Rs. 600-crore (enhanced from Rs. 200-crore) long-term fund-based limits and Rs. 70-crore<sup>1</sup> (reduced from Rs. 110-crore) non-fund-based bank facilities of M3M India Private Limited (M3M)<sup>2</sup>. The outlook on the long-term rating has been revised to Stable from Negative.

### Rationale

The revision in ratings outlook reflects M3M's healthy sales velocity and significant pick-up in collections since the last rating exercise, which coupled with an undrawn line of credit of Rs. 769 crore as on March 31, 2018, lends adequate support to the liquidity profile of the company in the near term. The company achieved sales of Rs. 644 crore in FY2018, a growth of 24% over the previous year. Over the period under consideration, collection from customers also improved to Rs. 916 crore from Rs. 360 crore.

Further, the ratings reaffirmation continues to draw support from the moderation in execution risk as around 70% of the developable portfolio has received occupation certificate (OC). Apart from providing financial flexibility with the availability of finished inventory, the pending collections from these projects (~Rs. 1,130 crore as on March 31, 2018) also provides healthy visibility of cash flows over the medium term, given that a majority of the pending collection from these projects were linked to possession/ completion. The rating also continues to draw support from M3M's booking status at the end of March 31, 2018, wherein the company has achieved bookings for 7.3 million square feet (mn sq ft) of area that translates into booking ratio of 63% of the area launched. Also, the rating factors in the company's low exposure to approval risks for its ongoing projects and its fully paid-up as well as its low-cost land bank, which besides limiting committed payments provides financial flexibility to the company.

Further, M3M has given substantial advances to some of its Group companies. ICRA's ratings derive comfort from the launches (such as 65<sup>th</sup> Avenue, M3M Heights, Trump Tower, Corner Walk etc.) in these Group companies which have seen healthy bookings during FY2018. According to the management, upstreaming of cash flow from these Group companies is expected to support M3M's cash flows over the near-to-medium term. However, receipt of these funds in a timely manner and utilisation of the same towards deleveraging of M3M's balance sheet will remain a key monitorable.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

The rating strengths are offset by M3M's elevated debt levels, which along with significant upcoming repayments, will necessitate that collection from customers remain robust. The debt increased to Rs. 2,028 crore as on March 31, 2018 against Rs. 1,893 crore a year ago. ICRA has taken cognisance of the undrawn limits of Rs. 769 crore that will support the cash flows in the near term. Nevertheless, the ability of the company to generate adequate sales and customer collections and reduction in its debt levels would be a key monitorable.

The rating also factors in M3M's exposure to market risk as significant area is yet to be booked. Slowdown in real estate demand coupled with high concentration of M3M's ongoing projects and its land bank to a single micro market – Golf Course Extension Road, Gurgaon, Haryana – and concentration of its product profile to premium product segment, where the sales remain tepid relative to mid-market segment, further accentuates the marketing risk.

Going forward, the company's ability to deleverage its balance sheet along with improvement in its debt maturity profile and ability to maintain healthy sales as well as collections would remain the key rating sensitivities.

## Outlook: Stable

ICRA believes that M3M will be able to maintain its financial profile aided by its healthy collections from finished inventory and low pending cost in its ongoing projects. The outlook may be revised to Positive if the company is able to reduce the debt levels as well as improve the debt maturity profile in the near-to-medium term. The outlook may be revised to Negative in case of further delay in deleveraging its balance sheet or lower-than-expected cash collections from customers, leading to pressure on the cash flows of the company given the upcoming high debt repayment obligations.

## Key rating drivers

### Credit strengths

**Healthy sales velocity and collections coupled with cash flow visibility:** M3M was able to book around 0.89 mn sq ft in FY2018 having sale value of Rs. 644 crore. In addition, the company achieved collections of Rs. 916 crore in FY2018 compared with Rs. 360 crore in FY2017, in line with ICRA's expectation. Further, many of its projects received OC, which apart from providing financial flexibility with the availability of finished inventory, the pending collections from these projects (~Rs. 1,130 crore as on March 31, 2018) also provides healthy visibility of cash flows over the medium term, given that a majority of the pending collection from these projects were linked to possession/ completion.

**Moderation in execution risk:** With no major launches in the recent past and project Woodshire receiving OC along with other projects like Golf Estate I, Golf Estate II, Merlin, Cosmopolitan and Urbana, the exposure to execution risk has moderated for the company.

**Cash flow visibility from Group companies:** There have been four project launches in M3M's Group companies, which have seen healthy bookings in FY2018. M3M had advanced money for land acquisition to these Group companies and with the launch of the projects in those entities, M3M expects significant cash flows from these entities to be received over the next 12-24 months. These inflows would further support the cash flows of the company. Utilisation of the funds so received will remain a sensitivity.

### Credit challenges

**Elevated debt levels coupled with bunching up of repayments:** The company's debt levels remain elevated. At the end of March 2018, the company had debt of Rs. 2,028 crore outstanding compared with Rs. 1,891 crore in the previous year. The company's focus on project execution resulted in push back of the deleveraging plans. Further, there is significant bunching up of repayments in FY2020 with repayment obligation of Rs. 1,040 crore. Hence, the ability of the company to generate adequate sales and realisation of funds from the Group companies would be essential. However, ICRA notes

that the company has unavailed line of credit of Rs. 769 crore as on March 31, 2018, which provides financial cushion to fund any cash flow gaps in the near term.

**Marketing risk:** Notwithstanding the sales velocity demonstrated in FY2018, exposure to marketing risk for the company remains high in the backdrop of slowdown in the Gurgaon real estate sector.

**High concentration on account of location and product segment:** Majority of the projects of the company are located in a single micro market – Golf Course Extension – which exposes it to high geographic-concentration risk. The risk is further accentuated as the product profile primarily comprises of luxury and ultra-luxury offering. However, ICRA notes that ~25% of the pending inventory is in the mid-market segment.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Real Estate Entities](#)

### About the company:

M3M, formerly known as M3M India Ltd., was incorporated in March 2007 by Mr. Roop Kumar and Mr. Pankaj Bansal. At present, M3M is developing around 11.23 mn sq ft, concentrating mainly across Sector 65 and 67 of Gurgaon, Haryana.

In FY2017, the company reported a net loss of Rs. 402.97 crore on an operating income (OI) of Rs. 1557.93 crore compared to a net profit of Rs. 9.50 crore on an OI of Rs. 378.83 crore in the previous year.

### Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	378.73	1557.93
PAT (Rs. crore)	9.50	-402.97
OPBDIT/OI (%)	19.49%	13.63%
RoCE (%)	1.66%	-2.89%
Total Debt/TNW (times)	0.49	0.77
Total Debt/OPBDIT (times)	18.03	8.39
Interest Coverage (times)	3.77	0.94
NWC/OI (%)	-179%	73%

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

**Any other information: None**

## Rating history for last three years

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May 2018	Date & Rating in FY2018 August 2017	Date & Rating in FY2017 August 2016	Date & Rating in FY2016 September 2015	
1	Fund-based Limits	600.0	372.0	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	-	-	
2	Non-fund based Limits	70.0	64.0	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	3-Sep-15	-	30-Sep-18	70	[ICRA]BBB (Stable)
NA	Term Loan	17-Nov-16	-	31-Dec-19	20	[ICRA]BBB (Stable)
NA	Term Loan	4-Dec-17	-	30-Sep-22	50	[ICRA]BBB (Stable)
NA	Term Loan	4-Dec-17	-	30-Sep-22	35	[ICRA]BBB (Stable)
NA	Term Loan	21-Sep-17	-	31-Mar-21	325	[ICRA]BBB (Stable)
NA	Term Loan	31-Mar-16	-	31-Aug-21	50	[ICRA]BBB (Stable)
	Overdraft					
NA	Limit	31-Mar-16	-	31-Aug-21	50	[ICRA]BBB (Stable)
NA	BG Limit		-		70	[ICRA]BBB (Stable)
					<b>670</b>	

Source: M3M

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit [www.icra.in](http://www.icra.in)

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