

Marathon Nextgen Realty Limited (Revised)

October 10, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Non-Convertible Debentures	390.00 (Reduced from 445.00)	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable)
Non-Convertible Debentures	5.00	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable)
Total Long-Term Instruments	395.00 (₹ Three Hundred Ninety-Five Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the rating to the Non-Convertible Debenture issue of Marathon Nextgen Realty Limited (MNRL) factors in advancement in project execution and moderately improved sales velocity of the on-going projects. The overall construction status of the launched area of projects – Marathon FutureX (commercial), Marathon Embrace (residential) and Marathon Carlo and Plaza (residential cum commercial) has improved, driven by receipt of pending approvals and achievement of financial closure. Further, the overall sales of launched area improved due to better construction progress and favourable location of the projects however, remained moderate.

The rating also factors in sizeable debt commitments, low receivable coverage ratio, and high dependence on customer advances for future funding. The rating continues to remain constrained by weak financial risk profile owing to high loans and advances and high corporate guarantees extended to group companies thus, straining the overall liquidity of the company.

The rating, however, also takes into cognizance the long-established track record of the promoters in the real estate industry.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant improvement in committed receivable coverage ratio to over 50%.
- Timely execution of the projects without significant cost overruns and timely realization of envisaged customer advances.
- Significant improvement in the overall capital structure (including corporate guarantee) on sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Considerable decline in the operating cash flows of the group on account of lower than envisaged sales momentum and collection efficiency.
- Any incremental debt (at group level) other than envisaged deteriorating capital structure of the group significantly on sustained basis.
- Significant expansion in the overall development portfolio resulting in weakening of operational metrics

Detailed description of the key rating drivers

Key rating weaknesses

Project execution being majorly dependent on customer advances

MNRL and Marathon Realty Private Limited (MRPL) (together referred as group) are together executing three projects Marathon Futurex (commercial), Marathon Embrace (residential) and Marathon Carlo & Plaza (commercial and residential), altogether admeasuring 19.30 lakh square feet (lsf; area funded through NCD is considered for FutureX) of saleable area at total estimated

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

project cost of ~Rs.2200 crore. The projects currently under execution are being funded through mix of promoter's contribution (8%), debt (35%), and customer advances (57%). As on Jun 30, 2022, the company has incurred about 70% of the project cost and has booked around 47%, of the launched area. The remaining construction cost of Rs.492 crore is expected to be funded through 50% of customer advances and rest through undrawn debt. Due to high reliance on customer advances, the company shall be required to maintain healthy booking status. Any adverse impact on the sales momentum of the company may induce the company to further draw debt, which shall deteriorate the capital structure and funding pattern of the company.

Weak financial risk profile marked by high debt level and corporate guarantee

The capital structure of MNRL is weak on account of high debt levels of Rs.716.4 crore as on March 31, 2022 and negative adjusted net worth of Rs.138 crore on account of high investments in the group entities. Furthermore, the group had aggregate outstanding debt level of Rs.1222 crore as on June 30, 2022 along with high contingent liabilities of Rs.407.5 crore as on March 31, 2022 majorly due to corporate guarantees extended to its other group entities for their ongoing projects. However, the same is partly offset by comfortable cashflows in these projects.

Improved however, low committed receivable coverage ratio

On the back of improved sales and better progress of project, the committed receivable coverage ratio for the launched area has improved marginally to 19% as on June 30, 2022 from 5% as on September 30, 2021. The low committed receivable coverage ratio is owing to modest sales in FutureX project despite near completion status of the project due to its commercial nature. The sale of FutureX project is expected to ramp up going forward supported by advanced project completion status. Nevertheless, the significant improvement in committed receivable coverage ratio will remain key monitorable.

Key rating strengths

Experienced promoters along with established track record in real estate industry

The promoters of the Marathon group, founded in 1969 by the Shah family of Mumbai, have long track record in the real estate industry with more than 50 years of experience. Marathon group has developed around 5 million square feet (msf) in more than 80 projects spanning across different segments of real estate projects, in MMR with currently around 2 msf of commercial space under development and around 18 msf of land under development in MMR. Strategic location of the project MNRL's project Marathon Futurex is in Lower Parel, Mumbai, which is one of the prime and well-established residential and commercial locations and is well connected through railways and roadways with proximity to schools, colleges, markets, leisure places and other day to day necessities which provide the company an advantage in garnering the sales momentum. The other two projects of the group are also located in Bhandup and Mulund area in the Mumbai Metropolitan Region which are also favourable locations.

Strategic location of the project MNRL's project

Marathon Futurex is in Lower Parel, Mumbai, which is one of the prime and well-established residential and commercial locations and is well connected through railways and roadways with proximity to schools, colleges, markets, leisure places and other day to day necessities which provide the company an advantage in garnering the sales momentum. The other two projects of the group are also located in Bhandup and Mulund area in the Mumbai Metropolitan Region which are also favourable locations.

Liquidity: Stretched

The liquidity of the company remains stretched marked by committed receivables of Rs.195 cr. as against pending cost of Rs.492 cr. and outstanding debt position of Rs.551 cr. as on June 30, 2022 thus, reflecting modest receivable coverage ratio of less than 20%. The liquidity is characterized by high debt repayments of Rs.297 crore, vis-à-vis expected net collection of Rs.273 crore in next 12 months ending June 30, 2023.

Analytical approach

Standalone. However, combined cash flow position of the all the ongoing real estate projects housed under MNRL and MRPL is considered in the analysis.

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Rating methodology for Real estate sector](#)

[Policy on Withdrawal of Ratings](#)

About the company

Marathon Nextgen Realty Limited (MNRL) promoted by the Marathon group of Mumbai, Maharashtra is a public limited, small cap listed entity with listings on National Stock Exchange and Bombay Stock Exchange. The company was incorporated on January 13, 1978 and is currently managed by the promoters of Marathon Group, Shah family, with shareholdings of around 74.97%, through its flagship entity Marathon Realty Private Limited (MRPL). The Marathon Group (MNRL and MRPL) is executing real estate commercial and residential projects admeasuring 20.94 Isf in the MMR.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY2023 (UA)
Total operating income	0.00	111.00	72.90
PBILDT	9.70	34.28	39.00
PAT	28.42	21.65	26.60
Overall gearing (times)	0.62	1.05	-
Interest coverage (times)	0.20	0.51	1.65

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE182D07019, INE182D07027	2021-12-24	17.50%	Dec.20, 2026	390.00	CARE BB; Stable
Debentures-Non Convertible Debentures	INE182D07043	2022-02-09	17.50%	Dec.22, 2026	5.00	CARE BB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non Convertible Debentures	LT	390.00	CARE BB; Stable	-	1)CARE B+; Stable (14-Dec-21)	-	-
2	Debentures-Non Convertible Debentures	LT	5.00	CARE BB; Stable	-	1)CARE B+; Stable (14-Dec-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Upside Sharing	At the end of each calendar quarter, from the sales achieved during the quarter in the secured properties, Issuer shall pay Investor "upside share" of 10% on the average price achieved for that quarter above Rs. 19,000 per Sq ft.
II. Put or Call options	<ul style="list-style-type: none"> At the end of the 24 months from the Closing Date and thereafter, at the end of every 12 months, Investor shall have Put Option At the end of the 24 months from the Closing Date and thereafter, at the end of every 12 months, Issuer shall have option to call/redeem the debentures
B. Non-Financial covenants	
Security cover	Minimum security cover of 2X maintained at all times

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here
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Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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