Marathon Nextgen Realty Limited

December 14, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debentures	450.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Total Long-term Instruments	**450.00 (Rs. Four hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed issuance of Non- Convertible Debentures (NCDs) by Marathon Nextgen Realty Limited (MNRL) and Marathon Realty Private Limited (MRPL; MNRL and MRPL both referred as Marathon group) as borrower and co-borrower is constrained on account of the project execution risk emanating from high reliance on external debt with partial financial closure achieved coupled with low sales momentum resulting in low committed receivables vis-à-vis the outstanding debt and pending construction cost. The rating also factors in pending requisite approvals and clearances for the projects weak financial risk profile marked by high debt level and high level of corporate guarantee extended by the group to their other group entities. Besides, the rating also takes into account the, geographical concentration of the projects and inherent cyclical nature of the industry.

The rating, however, also takes into cognizance of the long-established track record of the promoters in the real estate industry and the strategic location of the projects in the Mumbai Metropolitan Region (MMR).

Rating Sensitivities

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

- Timely execution of the projects within envisaged cost and timely realization of envisaged customer advances in order to meet the required fund for execution.
- Improvement in the percentage of committed receivable to cover balance project cost and outstanding debt to 50% or more on a sustained basis.
- Significant improvement in the overall capital structure (including corporate guarantee) of the group 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 risk emanating from high dependence on external borrowing with partial financial closure achieved coupled with slow sales momentum

MNRL and MRPL are together executing three projects Marathon Futurex (commercial), Marathon Embrace (residential) and Marathon Carlo & Plaza (commercial and residential), altogether admeasuring 20.94 lakh square feet (lsf) of saleable area at total estimated project cost of Rs.2068.13 crore. The aforesaid project cost is proposed to be funded in a mix of 17.25% promoter's fund, 63.11% external debt and 19.64 % customer advances leading to high dependence on debt. As on September 30, 2021, the marathon group has incurred about 45% of the project cost. The group has achieved the financial closure of around 56% of the envisaged debt with another 15% of debt under consideration with the investors and balance debt still to be tied up. Furthermore, the sales momentum remained slow with around 16% of total saleable area sold as on September 30, 2021 with committed receivables of Rs.134.17 crore resulting in low balance project cost and outstanding debt coverage of around 5% vis-à-vis committed receivables.

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

MNRL and MRPL have together issued debt instruments and availed debt facilities as borrower and co-borrower and vice versa in almost all the transactions and are under process to issue new Non-Convertible debentures of Rs.450 crore to refinance the existing debt partially and partially fund the estimated project cost. The capital structure of MNRL is weak on account of high debt levels of Rs.410.88 crore as on March 31, 2021 and adjusted net worth of Rs.213.23 crore on account of high investments in the group entities. Furthermore, the group had aggregate debt level of Rs.1100.42 crore as on September 30, 2021 along with contingent liabilities of Rs.358.83 crore as on March 31, 2021 majorly due to corporate guarantees extended to its other group entities.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE publications

Pending approvals and clearances for the projects
Marathon group is yet to receive some of the approvals and clearance required in the respective projects which are key to its execution. Any delay in receipt of the same may hinder the execution of the projects. Hence the timely receipt of the same remains key rating monitorable.

Competition and geographical concentration of the projects
All the on-going projects, along with the projects of Marathon Group, are currently in MMR thus there is a geographic concentration. Any downturn in such markets will impact group's revenues going forward. Further, the project faces competition from nearby projects being developed by other players in the market. The other projects will result in additional inventory, which may lead to downward pressure on selling prices and saleability risk. However, considering the outlook of real estate segment in the micro markets, the risk of offtake is mitigated to some extent.

Inherent cyclical nature of the industry
Real estate sector is highly susceptible to economic cycles. Health of an economy in terms of GDP, employment data, manufacturing activity, prices of goods, etc. affects the value of real estate in such a way that when economy is sluggish real estate sector is affected in a similar way.

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 18 msf of land under development in MMR.

Strategic location of the project
MNRL's project Marathon Futurex is located 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 is characterized by the high debt repayments of Rs.244.83 crore for servicing of existing debt, vis-à-vis expected net collection from project sales and execution of Rs.236.01 crore in next 12 months ending December 2022. The company has committed receivable of Rs.134.57 crore from projects reflecting low coverage on balance construction cost and outstanding debt.

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

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 lsf in the MMR.

Brief Financials (MNRL; Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22
Total operating income	100.03	72.33	32.67
PBILDT	87.11	82.02	26.02
PAT	34.40	28.42	-1.73
Overall gearing (times)	0.53	0.62	0.68
Interest coverage (times)	2.00	1.71	1.49

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures		-	-	-	445.00	CARE B+; Stable
Debentures-Non Convertible Debentures		-	-	-	5.00	CARE B+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Debentures-Non Convertible Debentures	LT	445.00	CARE B+; Stable				
2	Debentures-Non Convertible Debentures	LT	5.00	CARE B+; Stable				

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
	1. There shall be lock-in of 24 months from Closing Date and no prepayment shall be allowed during Lock-in period, except repayment from project cash flows and/or LRDs raised on Project/s upon leasing or at the discretion of the Investor. 2. Any incremental funding on the FutureX projects (excluding LRDs) shall not be above Rs.9,000 per Sq ft of approved/ to be approved leasable/saleable area offered as security for availing such facility. 3. For Areas mortgaged to LICHFL in FutureX: i) Minimum Average Sale Price achieved shall be Rs. 19,000 per sq.ft. b. Minimum Average lease rentals achieved shall be Rs.130 per sq.ft. per month. 4. For Areas mortgaged to LICHFL in Mafatlal Chambers: a. Minimum Average Sale Price achieved shall be Rs.15,000 per sq.ft. 5. Minimum Average lease rentals achieved shall be Rs.100 per sq.ft. per month.
B. Non-financial covenants	
Cash flows	1. All cash-flows from the Project shall be utilized either towards project completion within the scope of the costing defined, or towards servicing of debt. There shall be no takeout or any other utilization of the proceeds of the Security assets other than the above till the currency of the Facility except surplus amounts released by the Lender from sales revenue or surplus post debt repayment/servicing out of LRD facilities availed from

Name of the Instrument	Detailed explanation
	leased premises. 2. No further construction of saleable/leasable area in Marathon Futurex beyond 38th floor.
Put/Call Option	1. 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 on such that on exercise of Put Option, the Issuer / Developer / Guarantor shall be liable to pay the Investor entire outstanding amount within [60] days of exercise of such Put Option ("Put Option"). 2. 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 issued ("Call Option"). The Issuer shall be able to exercise Call Option by paying the entire outstanding amount including accrued & unpaid coupon/interest to the Debenture Holders. 3. If the Coupon / Principal is not serviced as per the schedule then the default interest shall be levied at 1.0% per month in addition to regular coupon on the overdue amount for the first overdue period of 30 days & any such extended period at the discretion of Investor. The said 30- day period (or any such extended period) will be the Cure Period ("Cure Period") within which the Issuer/s should cure the default. Cure Period other than payment default will be more specifically detailed in Definitive Documents. 4. Any Event of Default continuing beyond expiry of Cure period may trigger Default Redemption of entire Investment Amount with an IRR of 23%, at the discretion of the Investor. 5. Any penalty / default interest paid due to non-payment of Coupon or Principal as per the tenor shall not be included in the Coupon IRR calculation.
Other conditions	1. All Unsecured Loans / Loans from Promoters / Equity/Sponsors / associates is subordinated to the proposed Facility, except between Borrower & Co-Borrower. Any interest or dividend or pay-outs in the Borrower and Co-Borrower thereon shall not be repaid out of cash flows from Secured Assets or from the proposed Facility/ies, except as permitted by the Investors. 2. During the currency of proposed Facility, the Borrower or Co-Borrower or Developer shall not, without prior approval of the Investors, enter into fresh borrowing arrangements, either secured or unsecured, either fund based or non-fund based, with any other bank or financial institutions, nor undertake guarantee obligations on behalf of any other person except additional incremental amount of upto a maximum of Rs. 100 Crores for MRPL and Rs. 100 Crores for MNRL on securities other than FutureX Project. This shall be subject to maximum LTV of 50% for the additional borrowing. 3. No change in the capital structure, shareholding/partnership/ beneficiary pattern, list of promoters & management control of the Borrower and Co-Borrower except within existing Promoters/ shareholders (apart from public shareholding pattern of MNRL)

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

Sr. No	Name of instrument	Complexity level
1	Non-Convertible Debentures	**Complex**
2	Non-Convertible Debentures	**Complex**

Annexure 5: Bank Lender Details for this Company- Not applicable

Note on complexity levels of the rated instrument: CARE 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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