Max Estates Limited

May 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	108.00	CARE A-; Stable	Assigned
Long-term / Short-term bank facilities	50.00	CARE A-; Stable / CARE A2	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Max Estates Limited (MEL) take into account its experienced and resourceful promoters coupled with strong management support from the parent company, Max Ventures and Industries Limited (MVIL), support of New York Life International Holdings Ltd in the real estate segment, steady cash flow from lease rentals backed by healthy occupancy, healthy debt protection metrics and long-term lease tie-ups with reputed lessee. The ratings, however, remain constrained by MEL's limited experience in the residential real estate segment, susceptibility to fluctuation in interest rates, project implementation risk related to the ongoing projects and highly regulated real estate market with exposure to inherent competition and cyclicality.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Timely receipt of rentals and ability to manage renewal on expiry of lock-in period in the lease agreements.
- Increase in lease rental income by around 10% per annum on a sustained basis while maintaining costs, thereby improving debt protection metrics.

Negative factors

- Pre-mature termination of lease agreement with any of the key tenants leading to reduction in occupancy rates for continuous period for more than three months.
- Higher vacancy of more than 15% or fall in lease rental rates leading to lower-than-expected cash flows.

Analytical approach: Standalone; factoring linkage with the parent Max Ventures and Industries Limited (MVIL).

Outlook: Stable

The "Stable" outlook reflects that the entity is likely to sustain its collection momentum along with current occupancy levels in the near to medium term aided by favourable location with adequate liquidity position as reflected by moderate cash balances.

Key strengths

Experienced and resourceful promoters coupled with strong management support from parent company, MVIL

Incorporated in 2015, MVIL is a part of the business conglomerate – the Max group, promoted by Analjit Singh. The Max group was founded by Analjit Singh in 1982. Analjit Singh (sponsor family) holds 49.52% stake in the MVIL, while 21.27% stake is held by New York Life International Holdings.

During FY22, MVIL sold its 51% shareholding in Max Speciality Films Limited (MSFL) for ₹638 crore and has utilised the proceeds for further expansion in the real estate. Furthermore, MVIL has proposed for reverse-merger with MEL, and post-merger the name of the combined entity will remain Max Estates Limited.

MEL is a wholly-owned subsidiary of MVIL incorporated in 2016. The company has developed a commercial project, Max House Phase-1. The project has been completed and is now 100% occupied with a total leasable area of 1.05 lsf. Apart

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

from this, the company is implementing multiple projects in commercial and residential real estate through various subsidiary companies.

Support of New York Life in real estate segment

Founded in 1845, New York Life is a financial services company and the largest mutual life insurer in the U.S. It came into partnership with the Max group and has co-invested in the development of the projects. New York Life owns a 21.27% stake in MVIL and additionally, it has invested 49% in Max Square Phase 1; Max Square Phase 2 and Sector 65, Gurgaon Commercial Project. New York Life has committed around ₹196 crore in Max Square phase 2, out of which the company has received around ₹40 crore. Also, it has committed around ₹290 crore for an upcoming project in sector 65, Golf Course Extn road (Gurgaon).

Overall, New York Life has already made commitment of around ₹572 crore till date (in three projects), and they will continue to evaluate co-investment, as a strategic investor, in the real estate business.

Steady cash flow from lease rentals backed by healthy occupancy

The company has completed Max House Phase 1 (100% owned by MEL) during FY21, and the property is now 100% occupied with total leasable area of 1.05 lsf. Full year rental for Max House -1 is in the range of ₹15-16 crore for FY23 against annual EMI of around ₹13 crore. Apart from the cash flow generating from the project, the support is likely to be available from MVIL.

Max House 1 is 100% leased to Marquee tenants like Nykaa Fashion, Samsung India Electronics, Target, Religare Enterprises, DSK Legal, Dhampur Sugar Mills, etc.

Apart from this, the project Max Towers under Max Towers Pvt Ltd is 100% occupied with monthly rental of ₹2.92 crore against EMI of ₹1.99 crore and another property named Max Square 1 in Max Square Pvt Ltd (rated 'CARE A- (CE); Stable') has been completed in March 2023. The company has done leasing of around 20% of the total leasable area.

Healthy debt protection metrics

The existing debt has been refinanced with LRD loan of ₹45 crore (₹39 crore has been availed) and ₹68 crore, i.e., ₹107 crore at an interest rate of 8.10% p.a. Although the overall debt has increased, the debt protection metrics remained healthy. The expected cash coverage ratio is expected to remain healthy at above 1 at these debt levels. The overall gearing stood at 0.11x (PY:0.12x) as on March 31, 2022. Furthermore, current long-term lease agreements of nine years have a lock-in period of three years, protecting cashflow.

Long-term lease tie-ups with reputed lessee

MEL has signed lease agreements for 100% of the total land area. The lease tenure extends upto FY31 with lock-in period extending upto November 2024 and escalation in rent at 15% after every 36 months. All tenants are currently under lock-in period which provides comfort regarding the revenue visibility. The tenant profile of Max House-I is diversified with no major concentration from single tenant and has been leased to various tenants like Nykaa Fashion, Samsung India Electronics, Target, Religare Enterprises, DSK Legal, Dhampur Sugar 4 Mills, etc.

Key weaknesses

Limited experience in real estate segment

In the past Max Estates Limited has developed three commercial projects on lease basis and has recently purchased a land parcel for development of residential project in Noida. The said project is at initial stages with designing work in process and is yet to be launched. The residential and commercial projects have different market dynamics and risks and considering this being the first large-scale residential project of the group, it is significantly exposed to the risk in the residential real estate project, most important being demand off-take risk.

Susceptibility to fluctuation in interest rates

The project under MEL named Max House Phase 1 has become operational and the property is now 100% occupied with a total leasable area of 1.05 lsf. The monthly rental continues to be at a significant premium currently at ₹125 per square feet for Max House. However, the rental collection (key source of revenue) is susceptible to economic downturns associated with the tenants' specific business risk profile. Furthermore, any fluctuation in the interest rates shall also have a bearing on the overall cash flow management and debt service indicators.

Land parcel acquisition in Noida for commercial/residential

In the last one year, MEL has acquired multiple land parcels in Noida and Gurgaon, funded majorly through its own equity, or through partnership with New York Life for some projects and some portion through debt. In totality, the company has six projects under development of which the construction is completed and occupancy certificate is received for one commercial project in Noida and for another commercial project in Delhi named Max House -2, the construction is in advanced stages and the company expects to complete the project in FY24. Apart from these projects, the other four projects are in initial stages of development and at approval and designing stage. Furthermore, the company has put bid with NCLT for acquisition of one large under-construction project in Noida.

Project implementation risk related to ongoing projects

Considering the initial stages of project implementation, the total cost and funding pattern of the ongoing projects is not yet ascertained. However, as per CARE Ratings Limited's (CARE Ratings') understanding, major portion of pending project cost of these projects will be funded through debt or customer advances (for residential project), as the company has already infused its equity contribution in the land acquisition. Therefore, with the expected increase in the debt level, the gearing level is also expected to increase in the short term as all these projects are at initial stages and will take minimum 3-4 years for completion leading to project implementation risk.

Highly regulated real estate market with exposure to inherent competition and cyclicality

Executing a real estate project requires various statutory approvals, which includes building plan approval, No objection certificate from Fire and Emergency services department, and power supply agreement with discoms. With Real Estate Regulation Act coming into force the cost for developers will increase as sales can only happen post registration with Real Estate Regulatory Authority, which is possible only after the project receives requisite approvals from various government departments. The company is exposed to the cyclicality associated with the real estate sector, which has direct linkage with the general macroeconomic scenario, interest rates and level of disposable income available with individuals. In case of real estate companies, the profitability is highly dependent on property markets.

Liquidity: Strong

The liquidity profile of MEL remains strong as evidenced by the timely receipt of monthly lease rentals. During FY24, the company has expected lease rentals of ₹16.32 crore as against repayment obligations of ₹13.68 crore (including interest and principal). The liquidity will also be supported by group's cash and bank balance of around ₹72.3 crore as of December 31, 2022, which includes DSRA equivalent to three months of debt servicing obligations.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Rating methodology for Debt backed by lease rentals

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Realty	Realty	Real Estate related services

Incorporated on March 22, 2016, Max Estates Ltd (MEL) is the real estate arm of the Max group (100% subsidiary of Max Venture and Industries Limited - MVIL) and is engaged in the business of real estate development. The company has developed commercial project named Max House-I located in Okhla. The property is now 100% occupied with total leasable area of 1.05 lsf.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	18.72	39.01	22.34
PBILDT	-10.60	3.51	1.99
PAT	-12.16	5.26	2.64
Overall gearing (times)	0.12	0.11	0.10
Interest coverage (times)	-0.92	0.48	0.24

A: Audited; UA: Un Audited; Note: 'the above results are latest financial results available'

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

Lender details: Annexure-5

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
Fund-based - LT-Term Loan		-	-	31-12-2034	108.00	CARE A-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	50.00	CARE A-; Stable / CARE A2

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	108.00	CARE A-; Stable				
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	50.00	CARE A-; Stable / CARE A2				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities : Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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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About us:
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