Marathon Nextgen Realty Limited

October 9, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	222.06 (Reduced from 390.00)	CARE BB+; Stable	Revised from CARE BB; Stable
Non-convertible debentures	5.00	CARE BB+; Stable	Revised from CARE BB; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings of the non-convertible debenture (NCD) issues of Marathon Nextgen Realty Limited (MNRL) factors in the advancement in the execution of majority of the ongoing projects and the moderately improved sales velocity.

The ratings also factor in the high dependence on customer advances for future funding and the improved yet low receivable coverage ratio. The ratings continue to remain constrained by the weak financial risk profile owing to large loans and advances coupled with corporate guarantees (CGs) extended to group companies, thus straining the overall liquidity of the company.

The ratings, however, also take into cognisance the long-established track record of the promoters in the real estate industry and the benefits driven from the strategic locations of the projects.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in the committed receivable coverage ratio to over 70%.
- Timely execution of the projects without significant cost overruns and timely realisation of the envisaged customer advances.
- Significant improvement in the overall capital structure (including CG) on a sustained basis.

Negative factors

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

Analytical approach

Standalone, however, the combined cash flow position of all the ongoing real estate projects housed under MNRL and Marathon Realty Private Limited (MRPL) is considered in the analysis.

Outlook: Stable

The outlook is expected to remain stable given the ongoing projects are in an advanced stage of completion, marked by satisfactory sales and collection levels.

Detailed description of the key rating drivers

Key weaknesses

High reliance on customer advances, albeit mitigated to a certain extent through satisfactory sales and collections

MNRL and MRPL (together referred to as group) are together executing the Marathon FutureX (commercial), Marathon Embrace (residential – Neopark and Neosquare), Zaver Arcade and Marathon Carlo & Plaza (commercial and residential) projects, altogether admeasuring around 12.5 lakh square feet (lsf; area funded through NCD is considered for FutureX) of saleable area at a total estimated project cost of around ₹1,509 crore. As on June 30, 2023, the total project cost incurred stood at around 76% and the remaining project cost of ₹364 crore is expected to be funded through around 86% of customer advances and the rest through undrawn debt. The booking status of the projects improved and remained comfortable at around 61% up to June 30, 2023, as

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

against 32% up to June 30, 2022. Also, it has received around 84% of the total sale consideration from the sold area as on June 30, 2023.

Due to the high reliance on customer advances, the company will be required to maintain a healthy booking status. Any adverse impact on the sales momentum of the company may induce it to further draw debt, which will deteriorate the capital structure and funding pattern of the company.

Improved, however, low committed receivable coverage ratio
On the back of improved sales and better progress of the project, the committed receivable coverage ratio for the launched area improved marginally to 26% as on June 30, 2023, from 19% as on June 30, 2022, however, remained low. CARE Ratings Limited (CARE Ratings) believes that the sales momentum of the projects are expected to improve, with significant improvement in the committed receivable coverage ratio, which will remain a key monitorable.

Weak financial risk profile, marked by high debt level and exposure to group companies
While the debt level of MNRL reduced to ₹552.42 crore as on March 31, 2023, from ₹716.42 crore as on March 31, 2022, the capital structure continues to remain weak on account of the high investments in group entities. The adjusted net worth remained negative at ₹12 crore as on March 31, 2023. Furthermore, the group (MNRL and MRPL) had an aggregate outstanding debt level of ₹1,096 crore as on May 31, 2023, along with high contingent liabilities, mainly 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.

Key strengths

Experienced promoters along with established track record in the real estate industry
The promoters of the Marathon group, founded in 1969 by the Shah family of Mumbai, have a long track record in the real estate industry, with more than 50 years of experience. The Marathon group has developed around 5 million square feet (msf) in more than 80 projects spanning across different segments of real estate in the Mumbai Metropolitan Region (MMR), with currently around 2 msf of commercial space under development and around 18 msf of land under development in the 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 with good connectivity through railways and roadways. This is also evident by the good traction in the sale of the project during the past year. The other projects are also located in the Bhandup and Mulund areas of MMR, which are also favourable locations. CARE Ratings believes that the company will continue to benefit from the strategic location of the projects.

Liquidity: Stretched
The liquidity of the company remains stretched, marked by committed receivables of ₹198 crore as against the pending cost of ₹364 crore and outstanding debt position of ₹410 crore as on June 30, 2023, thus reflecting modest a receivable coverage ratio of 26%. The liquidity is characterised by debt repayments of ₹195 crore vis-à-vis the expected net collection of ₹283 crore in the 12 months ending June 30, 2024. The liquidity is, however, supported by the comfortable surplus generated by the Marathon FutureX project, which resulted in repayment of the NCDs ahead of the repayment schedule.

Assumptions/Covenants
Not applicable

Environment, social, and governance (ESG) risks
Not applicable

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 and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Realty	Realty	Residential, commercial projects

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

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	111.00	334.19	95.17
PBILDT	34.28	105.87	52.57
PAT	21.65	105.09	35.19
Overall gearing (times)	1.05	0.69	0.63
Interest coverage (times)	0.51	0.94	2.67

A: Audited; UA: Unaudited. Note: The above results are the 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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
NCD issue	INE182D07019	24-Dec-2021	17.50	20-Dec-2026	136.37	CARE BB+; Stable
NCD issue	INE182D07027	24-Dec-2021	17.50	21-Dec-2026	54.55	CARE BB+; Stable
NCD issue	INE182D07050	09-Feb-2022	17.50	22-Dec-2026	31.14	CARE BB+; Stable
NCD issue	INE182D07050	09-Feb-2022	17.50	22-Dec-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 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	Debentures-Non Convertible Debentures	LT	222.06	CARE BB+; Stable	-	1)CARE BB; Stable (10-Oct-22)	1)CARE B+; Stable (14-Dec-21)	-
2	Debentures-Non Convertible Debentures	LT	5.00	CARE BB+; Stable	-	1)CARE BB; Stable (10-Oct-22)	1)CARE B+; Stable (14-Dec-21)	-

*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	Debentures-Non Convertible Debentures	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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: +91-22- 6754-3444 E-mail: ankur.sachdeva@careedge.in	Divyesh Bharat Shah Director **CARE Ratings Limited** Phone: +91-20-4000-9069 E-mail: divyesh.shah@careedge.in Ashish Kashalkar Assistant Director **CARE Ratings Limited** Phone: +91-20-4000-9009 E-mail: Ashish.Kashalkar@careedge.in Sachita More Lead Analyst **CARE Ratings Limited** E-mail: Sachita.More@careedge.in

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