Max Estates Limited

April 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	99.00 (Reduced from 108.00)	CARE A-; Stable	Reaffirmed
Long-term/short-term bank facilities	50.00	CARE A-; Stable/CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of long-term and short-term ratings of bank facilities of Max Estates Limited (MEL) continues factoring its experienced and resourceful promoters, support of New York Life Insurance Company in the real estate segment, steady cashflow from lease rentals backed by healthy occupancy of commercial assets with long-term lease tie-ups with reputed lessees, and 100% sales bookings of residential project within the first year of launch.

However, these strengths are constrained by MEL's experience in the real estate segment, project execution risk related to ongoing projects, high reliance on external funding (customer advances and bank loans) for financing projects, and presence in a highly regulated real estate market with exposure to inherent competition and cyclicality.

Debt protection metrics, although moderate, are expected to move in the upward direction, given the company's plans of availing further debt for financing ongoing projects. However, MEL maintains sufficient liquidity and proceeds from residential projects, expected to add liquidity support.

CARE Rtaings Limited (CARE Ratings) notes the reverse merger between Max Ventures and Industries Limited (MVIL, erstwhile parent of MEL) and MEL, as envisaged, and the subsequent listing of MEL on exchange.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving cash coverage ratio (CCR) above 1.30x on a sustained basis.
- Substantial execution and collections from ongoing or upcoming projects, improving the liquidity profile on a sustained basis.

Negative factors

- Delay in execution or sales collections, impacting the liquidity profile.
- Higher-than-envisaged debt, deteriorating the leverage profile.
- Vacancy above 10% in completed projects on a sustained basis, impacting CCR.

Analytical approach: Consolidated

CARE Ratings has taken a consolidated view of MEL and its subsidiaries as they are under a common management and have operational and financial linkages. The list of entities whose financials have been consolidated is mentioned in Annexure-6.

Outlook: Stable

The stable outlook reflects CARE Ratings' expectations of the company sustaining its collection momentum with current occupancy levels in the near to medium term, aided by favourable location with adequate liquidity position, reflected by a moderate cash balance.

Detailed description of key rating drivers

Key strengths

Experienced and resourceful promoters

Incorporated in 2016, MEL is part of the Max group, promoted by Analjit Singh. The Max group was founded by the promoter in 1982. Analjit Singh and family (sponsor) holds 49.51% stake in MEL, while 21.26% stake is held by New York Life International Holdings Limited. To streamline operations and strengthen Max Estates' position in the real estate industry, the reverse merger

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

between MVIL and MEL was executed and approved by the National Company Law Tribunal (NCLT) in July 2023. MEL has developed a commercial project, Max House Phase-1, with a total leasable area of 1.05 lakh sq ft (lsf), with 100% occupancy. This apart, the company is developing and managing multiple projects in commercial and residential real estate through its subsidiary companies.

Investment from New York Life in real estate segment
Founded in 1845, New York Life Insurance Company is a financial services company and the largest mutual life insurer in the US. It partnered with the Max group and has co-invested in developing real estate projects. New York Life owns a 23% stake in MEL, and additionally, has invested 49% in Max Square Phase 1, Max Square Phase 2, and Sector 65, Gurugram commercial project. Overall, New York Life has committed about ₹572 crore to date (in three projects), of which ₹140 crore is yet to be received. New York Life will continue evaluating co-investment as a strategic investor in the real estate business.

Steady cashflow from lease rentals, backed by healthy occupancy
MEL continues maintaining full occupancy in Max House Phase-1, with full year rental in the range of ₹15-16 crore for FY24 against annual EMI of about ₹14 crore. Max House Phase-1 is leased to marquee tenants such as Nykaa Fashion, Samsung India Electronics, Target, Religare Enterprises, DSK Legal, Dhampur Sugar Mills, among others. Entire cashflows are to be routed through a designated escrow account. There is a well-defined waterfall mechanism, wherein debt servicing takes priority over other outflows, thus demonstrating strong discipline. This apart, the company, through its subsidiaries, manages three commercial assets – Max Towers under Max Towers Private Limited, Max Square in Max Square Limited (rated 'CARE A- (CE); Stable' in July 2023) and Max House Phase-2 under Pharmax Corporation Limited. Max Towers is 100% occupied and has yearly rentals of about ₹38-39 crore in FY24, sufficient to cover its annual debt obligations of about ₹30 crore. Occupancy is 55% in Max Square and it has the potential to generate annual rental of ₹60 crore with 100% occupancy, while Max House Phase-2 has an occupancy of 65% (including letter of intents [LoIs]).

Long-term lease tie-ups with reputed lessee
MEL has signed lease agreements for 100% of the total land area. The lease tenure extends up to FY31 with a lock-in period extending up to November 2024 and escalation in rent at 15% after every 36 months. All tenants are currently under lock-in period, providing comfort on revenue visibility. The tenant profile of Max House Phase-I is diversified, with no major concentration from a single tenant and has been leased to tenants such as Nykaa Fashion, Samsung India Electronics, Target, Religare Enterprises, DSK Legal, Dhampur Sugar 4 Mills, among others.

Key weaknesses
Project implementation risk related to ongoing projects
MEL, under its subsidiaries, has developed four commercial projects on lease basis, of which two have been recently completed, taking its total real estate development to 13.30 lsf to date. Currently, two commercial projects are ongoing – Max Square Two and Max 65, with designing completed and debt to be raised for funding construction. MEL has commenced construction of a residential project, Estate 128 in Noida, of which 36% cost has been incurred. MEL has another residential project in the pipeline to be launched next quarter – Estate 360. This will be under a joint development agreement (JDA), where the partner will introduce land; the total development value is estimated at about ₹3,200 crore. All these projects are at initial stages with substantial work to be undertaken and debt not tied up. These projects will take a minimum of three to four for completion, leading to project implementation risk. Hence, fast pace of execution without cost overruns is key monitorable.

Expected increase in leverage profile
As on December 31, 2023, MEL had an overall gearing ratio of 0.54x and total debt (TD) of ₹768 crore on a consolidated level, out of which ₹338 crore is Lease Rental Discounting (LRD) loan. The company's average gearing ratio in past two years stood in the range of 0.50x. However, the company has plans to undertake projects with construction cost of ₹2,978 crore. The same is expected to be funded through debt of about ₹1,077 crore. This elevation in debt is likely to significantly weaken the financial risk profile. Adequate cashflow generation from upcoming projects, allowing the company to maintain liquidity, and thus, meet repayment obligations and construction expenses, will be key rating monitorable.

Highly regulated real estate market with exposure to inherent competition and cyclicality
Executing a real estate project requires statutory approvals, including building plan approval, no objection certificate from the fire and emergency services department, and power supply agreement with discoms. With the Real Estate Regulation Act (RERA) coming into force, the cost for developers will increase as sales can only happen post registration with the Real Estate Regulatory Authority, which is possible only after the project receives requisite approvals from government departments. The company is exposed to cyclicality associated with the real estate sector, which has direct linkage with the general macroeconomic scenario,

interest rates, and the level of disposable income available with individuals. In case of real estate companies, profitability is highly dependent on property markets.

Liquidity: Adequate

MEL's liquidity profile is adequate, as evidenced by receiving monthly lease rentals on time. In FY25, the company has expected lease rentals of ₹16.67 crore as against repayment obligations of ₹14.42 crore (including interest and principal) for Max House Phase-1. Liquidity will also be supported by the group's cash and bank balance of about ₹393.06 crore as on December 31, 2023, including lien fixed deposit (FD) of about ₹37.31 crore. On a consolidated level, for FY25, debt repayment obligations including interest is expected at about ₹157 crore.

In FY23, MEL received ₹131.72 of the balance stake sale of Max Speciality Films Limited, which was deployed in the real estate segment.

Environment, social, and governance (ESG) risks

Activities in the real estate sector have an adverse impact on environmental and social aspects, considering high emission levels, waste generation, climate change, high labour intensity, and related safety issues. MEL has an ongoing focus on strengthening its compliances of ESG parameters, and resultantly, has taken initiatives for efficiently managing ESG risks. The company has also been awarded certificates from the US Green Building Council (USGBC) for Max Towers and Max House and from Indian Geen Building Council (IGBC) for Max Towers, Max Square, Max House, Estate 128. Other key initiatives include:

- Environmental – waste water treatment plants, segregation of waste targeting zero landfill, use of rooftop solar PV.
- Social – Max India Foundation has impacted millions of people with nearly 540 NGOs.
- Governance – MEL has anti-corruption policies in place like Code of Conduct, Whistleblower policy, Related Party Transaction Policy, among others.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Rating methodology for Real estate sector
Short Term Instruments
Rating methodology for Debt backed by lease rentals
Consolidation

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 2016, MEL is the real estate development arm of the Max group, promoted by Analjit Singh and family. Another largest shareholder is New York Life International Holdings Limited, who acts as a strategic partner to MEL and will continue evaluating co-investment opportunities. MEL has a commercial project, Max House-I, in Okhla. The property is now 100% occupied with a total leasable area of 1.05 lsf.

Consolidated

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	69.29	107.34	62.94
PBILDT	30.66	31.67	9.97
PAT	4.92	18.47	-50.4
Overall gearing (times)	0.41	0.59	NA
Interest coverage (times)	1.90	1.70	0.35

Standalone

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	39.01	49.29	21.87
PBILDT	3.51	0.18	-5.84
PAT	5.26	32.75	19.21
Overall gearing (times)	0.11	0.17	NA
Interest coverage (times)	0.48	0.02	2.78

A: Audited, UA: Unaudited, NA: Not available. Note: These are latest financial results available.
Note: Financials are classified per CARE Ratings' internal standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instruments/facilities: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	31-12-2034	99.00	CARE A-; Stable
Non-fund-based - LT/ ST-Bank guarantee		-	-	-	50.00	CARE A-; Stable / CARE A2

Annexure-2: Rating history for 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	99.00	CARE A-; Stable	1)CARE A-; Stable (03-May-23)	-	-	-
2	Non-fund-based - LT/ ST-Bank guarantee	LT/ST	50.00	CARE A-; Stable / CARE A2	1)CARE A-; Stable / CARE A2 (03-May-23)	-	-	-

*LT: Long term; ST: Short term; LT/ST: Long term/short term.

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

Not applicable

Annexure-4: Complexity level of 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

Annexure-6: List of entities consolidated as on March 31, 2023

Sr No	Name of Entity	Extent of Consolidation	Rationale for Consolidation
1	Max Towers Private Limited	Full	Subsidiaries are in same line of business with significant operational and financial linkages
2	Max Square Limited	Proportionate	
3	Pharmax Corporation Limited	Full	
4	Max Estates 128 Private Limited	Full	
5	Max Estates Gurgaon Limited	Full	
6	Acreage Builders Private Limited*	Full	
7	Max I. Limited	Full	
8	Max Asset Services Limited	Full	

*On April 13, 2023, MEL sold 49% equity shares of Acreage Builders Private Limited to New York Life Insurance Company.

Note on complexity levels of 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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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