Max Estates Limited

October 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1.00	CARE A; Stable	Upgraded from CARE A-; Stable
Long-term / Short-term bank facilities	50.00	CARE A; Stable / CARE A2+	Upgraded from CARE A-; Stable / CARE A2
Long-term bank facilities	-	-	Withdrawn *

Details of instruments/facilities in Annexure-1.
*CARE has withdrawn the outstanding rating assigned to the aforementioned bank facility (term loan), as the company has repaid the term loan in full and there is no amount outstanding under the facility as on date.

Rationale and key rating drivers

Rating upgrade in long-term and short-term bank facilities of Max Estates Limited (MEL) considers the sizeable equity fund raised through Qualified Institutional Placement (QIP), convertible warrants and New York Life Insurance Company's (NYL) participation in commercial office projects by buying stake in certain MEL's subsidiaries. MEL also launched its second residential project Estate 360, a Joint Development Agreement (JDA) to be built on a land parcel admeasuring ~11.8 acres at the Dwarka expressway, Central Peripheral Road and planned Metro Corridor offering good connectivity to central and secondary business districts of Gurugram, that garnered robust bookings within a month.
The rating continues to factor its experienced and resourceful promoters, NYL's commitment in the commercial real estate segment with continued interest and steady cashflow from lease rentals backed by healthy occupancy of commercial assets with long-term lease tie-ups with reputed lessees. Furthermore, the group's leverage position stands comfortable, primarily due to significant portion of availed debt being lease rental discounting (LRD) debt, which is self-liquidating and backed by adequate rental income, while residential debt is also backed by significant committed receivables.

However, rating strengths are moderated by execution and marketing risks associated with ongoing sizeable development plans including the projects in pipeline, exposure to leasing risk in existing and upcoming leasable assets, geographical concentration risk, and inherent cyclicality of real estate sector. Going forward, the company's ability to timely launch planned projects, ramp up collections, while maintaining a comfortable financial risk profile, remains a key rating monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained growth in overall collections and maintenance of healthy occupancy level in the commercial segment contributing to maintenance of comfortable leverage profile of the company

Negative factors

- Considerable declining percentage of committed receivable to cover balance project cost and outstanding debt in residential segment to 60% and below, on a sustained basis.
- Increasing gross debt/annual cash inflows (residential collections and leasing income) to over 3x, as a result of declining income from leasing/residential projects or higher than expected draw-down of debt

Analytical approach: Consolidated

CARE Ratings Limited (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 healthy occupancy levels in the near to medium term, aided by comfortable cash flow position in residential segment.

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

Detailed description of key rating drivers

Key strengths

Experienced and resourceful promoters with NYL as strategic partner
Incorporated in 2016, MEL is part of the Max group, promoted by Analjit Singh. The Max group was founded by the promoter in 1982. Singh and family (sponsor) holds 49.42% stake in MEL, 22.63% is held together by NYL and New York Life International Holdings Limited, while the balance is held by public. NYL is a financial services company and the largest mutual life insurer in the USA. It partnered with the Max group and co-invested in developing real estate projects. NYL has contributed towards commercial projects, aiding to commence and finish projects per timeline. Till date, NYL has made commitment of ~₹1,200 crore and with recent transaction of buying stake to the extent of 49% in Max Towers Private Limited and Pharmax Corporation Limited, makes NYL and MEL shareholders in all commercial real estate subsidiaries. NYL will continue evaluating co-investment as a strategic investor in the real estate business. To support MEL's future plans of expanding portfolio, promoters have bought stake worth ₹75 crore by subscribing to convertible warrants.

Strong committed receivable coverage ratio indicating low funding risk and healthy cash flow visibility
The company has achieved full booking in its first residential project, which resulted in build-up of sizeable- committed receivables. As on August 31, 2024, the company has committed receivables of ₹1,364 crore, which is 121% of the balance project cost and outstanding debt. Second instalment of Estate 128 is due in the next year; hence, there is strong cash flow visibility in the near-term. MEL incurred close to 42% of project cost, reflecting intermediate stage of execution. CARE Ratings notes that Estates 360 attracted strong bookings due to the brand name of Max group. While residual execution risk exists, adequacy of committed receivables indicates a low level of funding risks.

Expected increase in debt, however financial risk profile to remain comfortable
As on March 31, 2024, the overall gearing has improved to 0.48x as against 0.59x as on March 31, 2023. As on June 30, 2024, the group has outstanding external debt of ~₹1,089 crore. ~60% of the outstanding debt pertains to LRD loans, which are self-liquidating and backed by adequate rental income. Based on current rental income, the company's debt to rental ratio is comfortable at ~5x, however it is likely to moderate to 6-7x, with plans to avail LRD top-up. Furthermore, the group's debt levels are expected to increase as under-construction CRE projects are majorly planned to be funded through debt levels. Nevertheless, the group has availed low debt on ongoing residential projects, hence, strong cash flows from residential segment strengthen the group's cash flow position. With significant committed receivables, the group's collections are expected to remain over ₹1,000 crore in near term and accordingly debt/collections are expected to remain comfortable at below 1.50x in near term.

Expansion in leasing portfolio with strong occupancy in operational assets
Soon after delivering a residential project in Dehradun, the company forayed in commercial real estate (CRE) segment by delivering Max Towers in Noida in 2019. As of now, MEL has operating CRE portfolio of 12.36 lakh square feet (lsf) of which 80% of leasable area stands occupied. These are occupied by reputed tenants and some of them includes New Delhi Television Limited (also known as NDTV), Samsung India Electronics Private Limited, Hero Motors Limited, Moody's and Dixon Technologies. Cash coverage ratio (CCR) for operational portfolio is well above 1x for the medium term and external debt/rentals is comfortable at 6-7x. NYL continues to be a strategic partner and is now a 49% shareholder in all CRE subsidiaries. However, continued healthy collections and stable occupancy will remain a key monitorable.
After establishing track record of timely delivery of previous projects, MEL launched phase two of Max Square and its first CRE project in Gurugram with cumulative development potential of over 25 lsf and expected total construction cost is ₹1,658 crore. Projects shall be debt funded to meet majority of the cost while the balance shall be shareholders contribution. NYL has committed ₹486 crore and ~46% is yet to be received. Achievement of financial closure is crucial to commence immediate execution and timely delivery of projects.

Key weaknesses

Exposure to execution and market risks
MEL would expand its ongoing portfolio at a faster pace over the medium term, supported by the recently raised capital. The company launched ~60 lsf of projects including residential and commercial, and 65 lsf is in pipeline. While collections have been visible and deployed appropriately, debt is yet to be raised for CRE projects. The company's ability to ramp-up execution and deliveries with the proposed expansion of portfolio will remain a key monitorable. Nevertheless, CARE Ratings expects MEL to benefit from its strong brand and favourable demand environment in the real estate market.

With respect to MSL, the company is undertaking construction of phase II with a potential leasable area of 10.15 lsf. Out of total construction cost, ~87% will be debt funded with pending financial closure. However, the company expects to raise the required debt soon, further NYL support is due to be received aiding in completion of project per timeline.

Limited geographic plans

The company's ongoing residential and leasing projects are being executed in NCR, thus there is considerable geographic concentration. Even future projects are planned to be launched in these areas. Any downturn or operational or regulatory challenges in such micro markets may impact developer's revenues. Nevertheless, the group's strong track record of development and established market position in these regions provides adequate comfort.

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

Liquidity: Adequate

As on March 31, 2024, MEL had free cash and bank balance of ₹230.74 crore, against scheduled debt commitments of LRD loans which are covered from monthly rental receipts having comfortable collection efficiency. Further, the recent fund raising has allocation towards general corporate purpose (GCP) which can be used towards ongoing designing, planning and related activities. The company's CCR is, accordingly, expected to remain healthy in the medium term.

Assumptions/Covenants: Not applicable

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

About the company and industry

Industry classification

Macroeconomic 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. Other largest shareholders are NYL and New York Life International Holdings Limited, who acts as a strategic partner to MEL and will continue evaluating co-investment opportunities. The company has delivered ~14.62 lsf of office space development and is undertaking ~34 lsf of residential projects in Delhi NCR region.

Consolidated

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	107.34	92.94	40.49
PBILDT	31.67	17.77	22.44
PAT	18.47	-55.12	-2
Overall gearing (times)	0.59	0.48	-
Interest coverage (times)	1.70	0.41	1.36

A: Audited, UA: Unaudited. Note: These are latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: 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 and Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	1.00	CARE A; Stable
Fund-based - LT-Term Loan		-	-	31-12-2034	0.00	Withdrawn
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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	-	-	1)CARE A-; Stable (05-Apr-24)	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 (05-Apr-24)	1)CARE A-; Stable / CARE A2 (03-May-23)	-	-
3	Fund-based - LT-Bank Overdraft	LT	1.00	CARE A; Stable	1)CARE A-; Stable (05-Apr-24)	1)CARE A-; Stable (03-May-23)	-	-

LT: Long term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated as on March 31, 2024

Sr No	Name of the 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 Asset Services Limited	Full	
3	Max Square Limited	Full	
4	Pharmax Corporation Limited	Full	
5	Max I. Limited	Full	
6	Max Estates Gurgaon Limited	Full	
7	Max Estates 128 Private Limited	Full	
8	Acreage Builders Private Limited	Full	
9	Astiki Realty Private Limited	Full	
10	Max Estates Gurgaon Two Limited	Full	

Note:

1. Astiki Realty Private Limited was bought by MEL on January 01, 2024 and Max Estates Gurgaon Two Limited was incorporated on January 03, 2024.
2. NYL bought 49% stake of Max Towers Private Limited and Pharmax Corporation Limited on May 01, 2024.

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
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