

Press Release

MGM Castings Private Limited

April 19, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 38.30 Cr.
Long Term Rating	SMERA B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B**' (**read as SMERA B**) on the Rs. 38.30 crore bank facilities of MGM Castings Private Limited (MGM). The outlook is '**Stable**'.

Incorporated in 2006, the company has been taken over by the current management - Directors, Mr. Sathyanarayan VP, Mr. Purushotham LV Naidu and Mr. Raghu VP in 2015. The company is based out of Bangalore (Karnataka) and is in the process of leasing out commercial property in Bangalore from August 2017. The company has entered into a leasing agreement with TUV Rheinland India Private Limited, a German ISO certification company for a period of 10 years.

Key Rating Drivers

Strengths

• Experienced management

The current management comprises Mr. Sathyanarayan VP, Mr. Purushotham LV Naidu and Mr. Raghu VP who possess experience of over three decades in the real estate sector. Silverline Investment, one of the group firms is a partnership firm engaged in the real estate and construction business. MGM was acquired in 2015 and is in the process of leasing out commercial property in Bangalore starting August 2017.

• Stable revenue stream

The lease agreement with TUV (lock-in period of 10 years) ensures stable revenue stream for the company through lease rentals. Around 80 percent of the leasable area to be handed over in August 2017 is expected to generate steady revenue during the tenure. Moreover, the lease agreement also includes price escalation clause which is expected to factor in any increase in operating costs during the lease tenure.

Weaknesses

• Project execution and implementation risk

Work on the project began in 2015 and is expected to be completed by August '17. The company incurred cost of nearly Rs. 43.24 cr till March 2017 that constitutes 68 percent of the envisaged project cost. Given the stage of project construction, the company is exposed to partial project execution risk with nearly 32 per cent of project work still pending. Also, execution of the remaining work largely depends on the proposed term loan of Rs 12 cr which is yet to be sanctioned.

• High dependence on external borrowings

The total project cost is around Rs. 64 cr to be funded through Rs. 1 cr of equity, Rs. 7.50 cr of unsecured loans from promoters, Rs. 17.20 cr of deposits and Rs. 38.30 cr of bank borrowings. Since around 60 per cent of the total project cost is expected to be funded from external borrowings, the company will be highly dependent on banks for project funding.

Analytical Approach

SMERA has taken a standalone view of the business and financial risk profiles of the entity.

Outlook: Stable

SMERA believes that the outlook of MGM would remain stable on account of the consistent revenue expected through lease rental. The outlook may be revised to 'Positive' if the company is able to complete its project on time and achieve momentum in rent receivables. Conversely, the outlook maybe revised to 'Negative' in case of significant delay in project completion thus affecting revenue inflow.

About the Rated Entity - Key Financials

None

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	31-Oct-2017	26.30	SMERA B / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	12.00	SMERA B / Stable

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ABOUT SMERA

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