

Press Release

MGM Castings Private Limited

July 05, 2018



Rating Upgraded

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

* Refer Annexure for details

Rating Rationale

Acuité has reviewed and upgraded long term rating of '**ACUITE B+** (**read as ACUITE B plus**) from '**ACUITE B** (**read as ACUITE B**) on the Rs.38.30 crore bank facilities of MGM Castings Private Limited. The outlook is '**Stable**'.

The upgrade is driven by timely completion of project in electronic city; further, it is driven by company monetizing part of the project by sale of three out of five floors and healthy lease rentals of around Rs.37 lakhs per month under a long term lease agreement for ten years. However, the rating is constrained by the project risk from its newly started venture in Bengaluru.

Incorporated in 2006, the company has been taken over by the current management – Directors, Mr. Sathynarayan VP and Mr. Purushotham LV Naidu in 2015. The company is based out of Bangalore (Karnataka), and is in the business of development of properties and leasing out.

Key Rating Drivers

Strengths

Experienced management

The promoters of the company Mr. Purushotham Lakshmaiah, Mr. Mr. Sathya Narayan Purushottam have around two decades of experience in the real estate segment. Mr. Purushotham Lakshmaiah has promoted another partnership firm named M/S. Silverline Group and the entity has successfully developed seven residential apartments and two commercial space involving saleable area of over 140000 sq. ft. in Bangalore City. The promoters have ventured into development of a commercial property in Bengaluru admeasuring about 2.1 lakh square feet (sft); they have successfully completed three out of five floors and leased out the space, and subsequently sold on getting a value proposition. Now the management is left with two floors with a built up area of about 83,200 sft, for which there is a long term lease agreement with TUV Rheinland India Private Limited for ten years. The first phase of completion is expected by around August / September 2018, and full occupancy and handover is expected by around August 2019.

The promoters have ventured into a new project in Bengaluru, by investing the sale proceeds from the above venture. They acquired the land, and expecting the construction to start in October 2018; the proposed developed built up area is about 2.2 lakh sft. The project cost is about Rs.91.6 crores, proposed to be funded out of promoter's funds of about Rs.29.6 crores, advance lease deposit of about Rs.12.0 crores and bank term loan of about Rs.50.0 crores. Acuite believes that the company is expected to enjoy the experience of the promoters in developing and lease / sale of commercial properties.

Weakness

High Funding risk

The company is currently developing a project at a cost of about Rs.91.65 crore. The project is proposed to be funded out of promoter's contribution of about Rs.22.00 crore, bank funding of about Rs.50.00

crore, unsecured borrowing of Rs.7.65 crore and customers advances of about Rs.12.00 crore. The company has acquired the land for Rs. 18.28 crore for construction (~ 20% of project cost) on April 2018 with investment of about Rs.15.00 crore from promoter's funds, and Rs.3.5 crore from unsecured borrowings.

For the next phase of work completion of about Rs.73.37 crores, the company will be using bank term loan of Rs.50.00 crore, promoters' funds of Rs.7 crore, unsecured borrowing of Rs.4.15 crore besides dependency on customer advances. The company is yet to receive the advances as the negotiation is going on with the customers; further, the financial closure is yet to happen and Acuite believes that the project is exposed to high funding risk as the untied portion is almost 85 per cent of balance project cost of Rs.73.37 crores; though the promoters have earlier successfully completed the projects. Any delay in financial closure will have a bearing on the business and financial risk profile of the company.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of MGM

Outlook: Stable

ACUITE believes that the outlook of MGM would remain stable on account of the consistent revenue expected through lease rental and experienced management. The outlook may be revised to 'Positive' in case of higher-than-expected cash accruals from the first project, by early completion and handing over of the complete possession. Conversely, the outlook may be revised to 'Negative' in case of any inordinate delay in financial closure of the new project or less-than-expected cash accruals from the first project thus impacting the liquidity.

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.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
24-Mar-2017	Term Loan	Long Term	26.30	ACUITE B/ Stable (Assigned)
	Proposed Term Loan	Long Term	12.00	ACUITE B/ Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	26.30	ACUITE B+/ Stable

					(Upgraded)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE B+/ Stable (Upgraded)

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About Acuité Ratings & Research:

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