

Press Release

MGM Castings Private Limited

August 02, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B+** (read as **ACUITE B plus**) to 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. Sathynarayan VP and Mr. Purushotham LV Naidu in 2015. The company is based out of Bengaluru (Karnataka), and is in the business of development of commercial properties and leasing out. Currently, it owns and leased out one property, and is in the process to develop a large commercial property of about 150,000 square foot (sft) in Bengaluru.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the MGM to arrive at this rating.

Key Rating Drivers

Strengths

Experienced management and Steady revenue stream under lease arrangements with reputed clients: The promoters of the company Mr. Purushotham Lakshmaiah, and 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 several residential apartments and commercial spaces in and around Bangalore City. The promoters have ventured into development of a commercial property in Bengaluru admeasuring about 2.1 lakh sft; they have successfully completed the project and sold part of the space, and currently about 58,040 sft is on lease basis on a long term agreement with TUV Rheinland India Pvt Ltd and Incture Technologies Pvt Ltd. Now they ventured into a developing a new commercial property of about 150,000 sft of leasable area; they have purchased the land and expecting the property ready by around second / third quarter of FY2021. Acuité believes that promoters vintage and long track record of operations is expected to support in improvement of its business risk profile over the medium term.

Favourable location of the property:

The property is electronic city, Bangalore which is a largest industrial technology hub of Bangalore.

Weaknesses

Susceptibility of operating performance to dynamics of commercial real estate segment

MGM has only one project which is located in Bangalore. As a result, any disruption in the business dynamics or the regulatory environment can adversely impact the business risk profile and operating performance of the company.

Funding and Implementation risk

The company is currently developing a project at a cost of about Rs.68.50 crore. The project is proposed to be funded out bank funding of about Rs.38.00 and remaining through promoter's contribution of Rs.18.33 crores, and rest through advance lease rents of about Rs.12.17 crore. The company has acquired the land for Rs. 23 crores and promoters also infused capital about Rs.18.30 crore towards the project. For the next phase of construction work, company will be using bank term loan of Rs.38 crores and advance rental deposit. It has applied for the loan and awaiting for the sanction. MGM has entered into an MOU with Amphenol Interconnect India Pvt Ltd for leasing of about 77,000 sft of total area; the

prospective client is one of the largest manufacturers of interconnect products in the world. MGM has secured necessary approvals for commencement of work, and expecting the construction to start in August 2019, and expecting about 50 per cent of the total space ready for occupancy by around October 2020. Acuite believes that as the financial closure is yet to happen and construction yet to start, the project is exposed to funding and implementation risk which may result in delay in commercialization of the operations; though the same is partly mitigated by their experience in the earlier project.

Liquidity

Liquidity of MGM is stretched marked by moderate cash accruals. It has reported cash accruals of Rs.1.10 crore in FY2019 and is expected to be in the range of Rs.2.00-3.00 crore over the coming years where as its repayments obligation are about Rs.2.50-3.00 Crs during the same period. Further, its in the process of implementing large debt-funded capex and any significant delay in completion of the project, or cost escalation is expected to constrain the liquidity further.

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 early completion of the new project and accruals. 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 leading to deterioration of its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	2.16	0.03	-
EBITDA	Rs. Cr.	1.00	(0.03)	(0.04)
PAT	Rs. Cr.	1.10	18.19	0.03
EBITDA Margin	(%)	46.06	(90.38)	-
PAT Margin	(%)	50.90	59,463.74	-
ROCE	(%)	6.84	79.35	0.28
Total Debt/Tangible Net Worth	Times	0.96	0.79	29.55
PBDIT/Interest	Times	2.41	67.52	-
Total Debt/PBDIT	Times	7.69	0.63	508.99
Gross Current Assets (Days)	Days	34	1,340	-

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Real Estate Entities - <https://www.acuite.in/view-rating-criteria-41.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Jul-2018	Term Loan	Long Term	26.30	ACUITE B+ / Stable (upgraded)
	Proposed Long Term Loan	Long Term	12.00	ACUITE B+ / Stable (upgraded)
19-Apr-2017	Term Loan	Long Term	26.30	ACUITE B / Stable (Assigned)
	Proposed Long Term Loan	Short 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. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	14.30	ACUITE B+ / Stable (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE B+ / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-40274590 bhavanisankar.oruganti@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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