



Press Release

Maverick Holdings And Investments Private Limited

September 26, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 268.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 268.00 crore bank facilities of Maverick Holdings And Investments Private Limited. The outlook is '**Stable**'.

Maverick Holdings And Investments Private Limited (MHIPL) incorporated in 1991, is a Bangalore-based company promoted by Mr. B.N. Garudachar and Mr. B.G. Uday. The company operates two shopping malls namely Garuda Mall and Garuda Swagath Mall in Bangalore. The company is also engaged as a civil contractor for redevelopment projects (mainly for the government). Besides, it is also developing a luxury resort, Suncity, at Bengaluru, over the medium term.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The Maverick Group (MG), incorporated in 1991, is part of the Garuda Group. The group is led by Mr. B.N. Garudachar and Mr. B.G. Uday. The promoters have over three decades of experience in the industry. The group has developed almost 1000 acres of residential and commercial complexes. It owns and operates one of the most prestigious malls in Bangalore - Garuda Mall.

- **Steady flow of lease rentals with marquee clients**

The group benefits from the steady lease rentals from its two mall properties - Garuda Mall (7.50 lakhs sq. ft) and Garuda Swagath Mall (1.72 lakhs Sq. ft.) in Bangalore which is almost fully occupied as on date. The MG group has reported lease rentals of Rs.38.10 crore in FY2017 (Provisional) as against Rs.38.95 crore in FY2016 and Rs. 37.79 crore in FY2015. The key anchor clients include Inox Leisure Limited, West Side (a Tata enterprise), JSM Holdings Food Court, City Max Entertainment Private Limited and Shopper's Stop. Most of these clients have been associated with Garuda Mall for a decade, which indicates 'stickiness'. MG enters into agreements with its clients for tenures ranging from 10 to 20 years with a lock-in period of three to five years resulting in high revenue visibility. Apart from lease rentals, the lessees are also required to share the common maintenance charges of the mall. EGRIPPL is responsible for the maintenance of the mall. The strategic location of the mall at M. G. Road, Bangalore, results in higher customer footfalls which in turn enhances its ability to attract strong brands. This results in higher occupancy levels. SMERA believes that MG will benefit from the strategic location of Garuda Mall and its ability to attract marquee clients, thereby translating into a steady flow of rental revenues.

- **Escrow with waterfall mechanism**

The ratings draw comfort from the escrow mechanism through which cash flows from lease rentals are routed and used for payment as per the defined payment waterfall. The company maintains debt service reserve account (DSRA) equivalent to three months interest and principal with the bank in

the form of Fixed Deposit. The amount in the DSRA would be utilised only in case of a shortfall in cash flows for meeting debt service requirements from time to time.

- **Moderate financial risk profile**

The MG group has above-average financial risk profile marked by healthy net worth of Rs.153.92 crore as on 31 March, 2017 (Provisional) as against Rs. 133.76 crore as on 31 March, 2016. The gearing is low and stood at 0.92 times as on 31 March, 2017 (Provisional) compared to 0.22 times as on 31 March, 2016. However, the adjusted gearing (net worth is adjusted to exposure to group entities) stood high at 6.31 times as on 31 March, 2017. The total debt of Rs. 150.00 crore, includes term loans as on 31 March, 2017. The group has comfortable debt protection metrics with interest coverage ratio (ICR) of 2.88 times for FY2017 (Provisional) compared to 4.96 times for FY2016. The coverage indicators are expected to remain healthy in the medium term on the back of its healthy cash accruals.

Weaknesses

- **Susceptibility of margins to risks associated with Bangalore's real estate segment**

The group owns two shopping malls in Bangalore, Garuda Mall and Garuda Swagath Mall. It has been discounting the lease rentals from these two malls utilising the LRD loans to support the EPC segments and real estate ventures in other group entities. Since these malls are the core source of cash flow for MG, the steady flow of rentals from these two malls is critical to the credit profile of MG. The rental revenues from malls will be influenced by factors like demand for retail space in Bangalore which in turn will be based on factors such as level of retail spending. In the event of factors like slowdown in retail spending, the demand for retail property will be impacted. This in turn will affect future rental flows and also translate to risks like early exits/ renegotiation by clients. MG generated around 42 per cent of FY2017 revenues from lease rentals and the rest from civil construction. Significant elongation in the working capital cycle of the EPC division will affect cash flows from operations. Hence, the efficient management of working capital in the EPC segment while scaling up operations is critical for the group. SMERA believes that the Maverick group will, therefore, remain exposed to geographical concentration and low revenue diversity risks. Furthermore, the group will remain vulnerable to economic cycles as they derive their entire revenue from leasing out commercial spaces, which is linked to spending pattern of consumers.

- **Exposure to group entities**

The Maverick group's financial risk profile will be constrained by significant exposure to associate companies. As on 31 March, 2017 (Provisional) investments in associate concerns stood at Rs.47 crore while loans and advances given by MHIPL and EAGRPL to group companies stood at Rs.68.40 crore and Rs.14.73 crore respectively. The total exposure of MG to group entities stood at ~84 per cent of the total tangible net worth. Since the unwinding of these exposures is uncertain, the adjusted net worth (i.e. net worth after knocking off the exposure to these entities) is Rs.23.79 crore as on 31 March 2017. SMERA believes that the credit profile of MG will depend on its ability to curtail these exposures especially in the event of a slowdown in cash flows from mall operations.

Analytical Approach

For arriving at the rating, SMERA has considered the consolidated business and financial risk profile of MHIPL and Euroamer Garuda Resorts (India) Private Limited (EGRIPL). EGRIPL is a group company responsible for facility management of the malls. The two companies, together referred to as the Maverick group (MG), have similar lines of business, common promoters, joint borrowings of LRD loan and fungible cash flows.

Outlook: Stable

SMERA believes that MHIPL will maintain a stable outlook over the medium term owing to its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case the company exhibits healthy growth in cash accruals while curtailing exposure to other entities and managing its working capital requirements efficiently, thereby registering

improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in cash accruals or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), MG registered profit after tax (PAT) of Rs.20.17 crore on operating income of Rs.102.52 crore as against net profit after tax of Rs.11.71 crore on operating income of Rs.62.78 crore in the previous year. The net worth of the company stood at Rs.153.92 crore as on 31 March 2017 (Provisional) as compared to Rs.133.76 crore as on 31 March 2016.

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	Not Applicable	226.15	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	SMERA BBB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	0.10	SMERA BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	30.25	SMERA A3

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ABOUT SMERA

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