

Press Release

Maverick Holdings And Investments Private Limited

July 05, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 268.00 Crore
Long Term Rating	ACUITE BBB- / Outlook: Negative (from ACUITE BBB- / Outlook: Stable)
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite had placed MHIPL's ratings on Watch with developing implication vide its rationale dated 8 February, 2018.

Acuite has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.268.00 crore bank facilities of Maverick Holdings And Investments Private Limited (MHIPL). The outlook is revised to '**Negative**' from '**Stable**'.

The revision in the outlook is primarily driven by the likelihood of a disruption in the company's activities on account of the ongoing investigation by SFIO (Serious Fraud Investigation Office) against the company. The investigations are related to significant cash transfers through the bank accounts of the company in the post demonetisation period. The company has replied to the SFIO's communication in this regard. The matter is still under investigation and no official communication for the closure has been made available by the company to Acuite.

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.

Analytical Approach

For arriving at the rating, Acuite 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.

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.) located in Bangalore which is almost fully occupied as on date. The MG group has reported lease rentals of Rs.40.74 crore in FY2018 (Provisional) as against Rs.37.96 crore in FY2017 and Rs.38.95 crore in FY2016. 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. EGR IPL 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 resulted in higher occupancy levels. Acuité 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.

- **Above-average financial risk profile**

The group has an above-average financial risk profile marked by healthy net worth of Rs.155.55 crore as on 31 March, 2018 (Provisional). The gearing is moderate at 1.47 times as on 31 March, 2018 (Provisional) as compared to 1.04 times as on 31 March, 2017. The group has comfortable debt protection metrics with Interest Coverage Ratio at 1.89 times for FY2018 (Provisional) as compared to 2.70 times for FY2017. 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 are 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 percent 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. Acuité 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, 2018 (Provisional), investments in associate concerns stood at Rs.45.08 crore while loans and advances given by MHIPL and EAGRPL to group companies stood at Rs.126.86 crore and Rs.17.50 crore respectively. Acuité 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.

Outlook: Negative

The rating could be downgraded if the company's debt protection indicators deteriorates on account of challenges faced in sustaining optimal occupancy levels at Garuda Malls or in the event of an adverse outcome of the ongoing investigations. The outlook would be revised to stable if the ongoing investigations are concluded successfully in favour of the company.

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

CRISIL has been consistently following up with Maverick Holdings and Investments Private Limited (MHIPL; part of the Maverick group) for obtaining information through letters and emails dated April 25 2018, May 18 2018 and May 23 2018 among others, apart from telephonic communication. However, the company has remained non cooperative.

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition- <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments- <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Entities- <https://www.acuite.in/view-rating-criteria-14.htm>
- Consolidation of Companies- <https://www.acuite.in/view-rating-criteria-22.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. Crore)	Ratings/Outlook
8-Feb-2018	Term Loan	Long Term	226.15	ACUITE BBB- / Stable (Rating Watch)
	Cash Credit- I	Long Term	4.00	ACUITE BBB- / Stable (Rating Watch)
	Cash Credit- II	Long Term	7.50	ACUITE BBB- / Stable (Rating Watch)
	Proposed Long Term Loan	Short Term	0.10	ACUITE BBB- / Stable (Rating Watch)
	Bank Guarantee	Short Term	30.25	ACUITE A3 (Rating Watch)
26-Sep-2017	Term Loan	Long Term	226.15	ACUITE BBB- / Stable (Assigned)
	Cash Credit- I	Long Term	4.00	ACUITE BBB- / Stable (Assigned)
	Cash Credit- II	Long Term	7.50	ACUITE BBB- / Stable (Assigned)
	Proposed Long Term Loan	Short Term	0.10	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	30.25	ACUITE A3 (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	226.15	ACUITE BBB- / Negative (reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB- / Negative (reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB- / Negative (reaffirmed)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE BBB- / Negative (reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.25	ACUITE A3 (reaffirmed)

Contacts

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in Disha Parmar Analyst - Rating Operations Tel: 022-67141120 disha.parmar@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.