Press Release

Maverick Holdings and Investments Private Limited

August 19, 2019

Rating Reaffirmed, Assigned and Withdrawn

Total Bank Facilities Rated*	Rs. 288.25 Cr.
Long Term Rating	ACUITE BBB-/ Stable
Short Term Rating	ACUITE A3

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs. 214.25 crore and short term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs. 29.00 crore bank facilities of Maverick Holdings and Investments Private Limited (MHIPL). The outlook has been revised from **'Negative'** to **'Stable'**.

Acuité has also assigned the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs. 18.00 crore bank facilities and short term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs. 27.00 crore bank facilities of MHIPL. The outlook has been revised from '**Negative**' to '**Stable**'.

Further, Acuité has withdrawn the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs.4.00 crore bank facilities of MHIPL.

Acuité had earlier revised the outlook on the ratings from **'Stable'** to **'Negative'** vide its press release dated July 05, 2018. The revision in outlook from 'Stable' to 'Negative' was driven mainly by the investigation of SFIO (Serious Fraud Investigation Office) pertaining to significant cash transfers through the bank accounts of the company in the post demonetisation period. Besides the latest operational and financial updates, the management of Maverick Holdings and Investments Private Limited (MHIPL) has now shared with Acuité a letter received from SFIO dated May 21, 2019. The said letter mentions of certain discrepancies in complying with provisions of Companies Act, 2013 however, there are no specific remarks pertaining to the investigation in respect of the cash transfers.
Based on a review on the operational and financial performance of the company, discussions with the management on the current status of the investigation, and the letter submitted by them, Acuité has revised the outlook from 'Negative' to 'Stable'.

MHIPL, incorporated in 1991, is a Bangalore-based company promoted by Mr. B.N. Garudachar and Mr. B.G. Uday. The company operates three shopping malls, namely, Garuda Mall, Garuda Swagath Mall and Garuda Yelahanka Mall in Bangalore. The company is also engaged as a civil contractor for redevelopment projects (mainly for the government).

Analytical Approach

For arriving at the rating, Acuité 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 line of businesses, 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 three mall properties in Bangalore- Garuda Magrath Mall (7.50 lakhs sq. ft.), Garuda Swagath Mall (1.72 lakhs sq. ft.), Garuda Yelahanka Mall (1.50 lakhs sq. ft - operational from May, 2019).

The MG group has reported lease rentals of Rs. 43.46 crore in FY2019 (Provisional) as against Rs. 41.63 crore in FY2018 and Rs. 37.96 crore in FY2017. Acuité expects the lease rentals to further increase considering the new mall Garuda Yelahanka has recently started its commercial operation from May 2019 and has started attracting good clients.

The key anchor clients include Inox Leisure Limited, Shopper's Stop, Aditya Birla Fashion and Retail Limited, and others. 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 upto 10 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. EGRIPL 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. The increased presence in Bangalore through three malls will help the group in catering to wider clientele base thereby, imparting a resilience to its revenue profile.

Acuité believes that MG will benefit from the strategic location of its malls 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, low gearing and moderate debt protection metrics.

The tangible networth stands at Rs. 170.40 crore as on March 31, 2019 (Provisional) as against Rs. 152.78 crore as on March 31, 2018. The gearing is moderate at 1.24 times as on 31 March, 2019 (Provisional) as compared to 1.50 times as on 31 March, 2018. The total debt of the group stood at Rs. 211.86 crore as on March 31, 2019 comprising Rs. 205.67 crore of lease rental discounting loans, unsecured loans from promoters and directors of Rs. 0.25 crore and Rs. 5.93 crore of working capital borrowings. These loans are supported by steady rental cash flows from the lessees at its Garuda malls. The group has comfortable debt protection metrics with Interest Coverage Ratio and Debt Service Coverage Ratio (DSCR) at 1.98 times and 1.11 times for FY2019 (Provisional) respectively. The company maintains Debt Service Reserve Account (DSRA) for some of its borrowings.

Acuité believes that steady cash flow under the lease agreement of Garuda malls and long-standing presence of marquee clients will support the credit profile of MHIPL.

Weaknesses

• **Susceptibility of credit profile to the dynamics of Bangalore's retail real-estate segment:**
The Maverick Group has an established presence in Bangalore's real-estate segment with its two malls Garuda Magrath and Garuda Swagath. The group recently added a new shopping mall named Garuda Yelahanka Mall in May, 2019. The group's strategy is to develop malls in strategic locations and monetize these mall assets by discounting lease rentals from these malls. The proceeds of these LRD loans are used 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 malls are critical to the credit profile of MG. The rental revenues from malls are influenced by factors like demand for retail space in Bangalore which in turn is based on factors such as level of retail spending. In the event of factors like slowdown in retail spending, the demand for retail property is impacted. This, in turn, leads to increase request for early exits/ renegotiation by clients. This, in turn, leads to disruption in the revenue profiles of the malls.

MG generated around 52 per cent of FY2019 (Provisional) revenues from lease rentals and the rest from civil construction under Pradhan Mantri Awas Yojna and other government projects. 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 demand for real-estate segment in Bangalore. 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 its associate companies. As on March 31, 2019 (Provisional), investments in associate concerns stood at Rs. 45.09 crore while loans and advances given by MHIPL and EGRIPL to group companies stood at Rs. 131.77 crore and Rs.17.42 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.

Liquidity Position:

The liquidity position of MHIPL is adequate with high net cash accruals vis-à-vis its low term debt obligations. The average working capital limit utilisation for the past six months ended May 2019 stands at ~91 per cent. The current ratio stood at 1.54 times as on March 31, 2019 (Provisional). It has maintained unencumbered cash and bank balance Rs. 4.23 crore as on March 31, 2019.

Outlook: Stable

Acuité believes that MG will maintain 'Stable' outlook over the medium term on the back off steady flow of lease rentals from marquee clients across its mall assets in Bangalore. The outlook may be revised to 'Positive' if the group is able to demonstrate significantly higher cushion between cash accruals and debt servicing obligations. Conversely, the outlook may be revised to 'Negative' in case the group’s debt servicing metrics deteriorates on account of renegotiations or early exits due to contraction in demand for retail space or emergence of other competing malls.

About the Rated Entity – Key Financials (Consolidated)

Particulars	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	132.14	100.62	102.36
EBITDA	Rs. Cr.	39.96	27.44	37.36
PAT	Rs. Cr.	14.32	8.33	10.69
EBITDA Margin	(%)	30.24	27.27	36.50
PAT Margin	(%)	10.84	8.28	10.44
ROCE	(%)	9.98	7.94	14.78
Total Debt/Tangible Net Worth	Times	1.24	1.50	1.04
PBDIT/Interest	Times	1.98	1.91	2.70
Total Debt/PBDIT	Times	5.14	7.45	3.86
Gross Current Assets (Days)	Days	384	477	576

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

None

Any other information

None

Applicable Criteria

- Entities in Service Sector: https://www.acuite.in/view-rating-criteria-8.htm
- Entities in Infrastructure Sector: https://www.acuite.in/view-rating-criteria-14.htm
- Financial Ratios and Adjustments: https://www.acuite.in/view-rating-criteria-20.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-17.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 the Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
05-July-2018	Term Loan	Long Term	226.15	ACUITE BBB-/ Negative (Reaffirmed)
	Cash Credit- I	Long Term	4.00	ACUITE BBB-/ Negative (Reaffirmed)
	Cash Credit- II	Long Term	7.50	ACUITE BBB-/ Negative (Reaffirmed)
	Proposed Long Term Loan	Long Term	0.10	ACUITE BBB-/ Negative (Reaffirmed)
	Bank Guarantee	Short Term	30.25	ACUITE A3 (Reaffirmed)
08-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	Long 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	Long 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. Cr.)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	204.17	ACUITE BBB-/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/ Stable (Assigned)
Cash Credit- I	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB- (Withdrawn)
Cash Credit- II	Not Applicable	Not Applicable	Not Applicable	2.25 (Revised from Rs. 7.50 crore)	ACUITE BBB-/ Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BBB-/ Stable (Assigned)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	7.83	ACUITE BBB-/ Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	29.00 (Revised from Rs. 30.35 crore)	ACUITE A3 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	27.00	ACUITE A3 (Assigned)

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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.