India Ratings Upgrades Macrotech Developers' NCDs and Bank Loans to 'IND A+'/Stable

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India Ratings and Research (Ind-Ra) has upgraded Macrotech Developers Limited's (MDL) debt instruments:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)	-	-	-	-	INR2.0	IND A+/Stable	Upgraded
Bank loans	-	-	-	-	INR41.4 (reduced from INR51.5)	IND A+/Stable	Upgraded
Fund-based limits	-	-	-	-	INR12.2 (increased from INR10.7)	IND A+/Stable/IND A1	Long-term upgraded and short-term affirmed
Non-fund-based limits	-	-	-	-	INR4.8	IND A1	Affirmed

Analytical Approach: Ind-Ra continues to take a consolidated view of MDL and all its subsidiaries and special purpose vehicles to arrive at the ratings as all the companies operate in the same line of business under a common management and MDL has guaranteed the debt of its subsidiaries.

The upgrade reflects an improvement in the consolidated credit metrics with the net debt/operating cash flows improving to 1.25x in FY23 and net debt/inventory to 0.25x. This was underpinned by strong presales of about INR120.6 billion and collections of INR106 billion in FY23, leading to a 23% yoy reduction in the net debt to INR71.8 billion.

Key Rating Drivers

Significant Deleveraging and Improved Capital Structure: MDL improvement in capital structure comes from the fact that the company has been deleveraging its balance sheet. Its net debt reduced 57% yoy to INR71.8 billion over FY21-FY23 (FYE23: down 23% yoy). MDL raised INR25 billion through the initial public offering in FY21 and MDL's promoters returned loans worth INR16 billion during 1QFY22. MDL further raised INR40 billion of fresh equity during 3QFY22. As a result, MDL's net debt/operating cash flow reduced to 1.27x in FY23 (FY22: 2.35x) and net debt/inventory to 0.24x (0.34x). The management has indicated to the market that it will continue to focus on deleveraging and reduce its net debt to lower of 1.0x of operating cash flow and 0.5x of equity. Additionally, some of the new debt raised in FY23 was priced below 10%. Ind-Ra will continue to monitor MDL's consolidated credit profile and any deviation in the net debt levels will remain a key monitorable.

Improved Operating Performance in FY23: On a consolidated basis, the revenue grew 3% yoy to INR94.7 billion in FY23. The adjusted EBITDA margins was 31% in FY23 (FY22: 35%) due to use of projection completion method for revenue recognition where revenue from projects can only be accounted when the contract is complete.

Liquidity Indicator – Adequate: At FYE23, MDL had cash and cash equivalents (including investments held in the form of mutual funds and fixed deposits) of approximately INR18.5 billion and sanctioned undrawn bank limits of INR18.5 billion. It has gross repayment obligations of INR15.9 billion and INR18.1 billion, respectively, in FY24 and FY25. The balance construction cost of ongoing projects was INR73 billion, against estimated committed receivables of INR85 billion as of 31 March 2023. The total value of the unsold inventory from the ongoing projects was around INR201 billion (over 15 million square feet (msf) at FYE23. Additionally, the company has ready-to-move in inventory of around 7msf with a total value of unsold inventory of around INR97 billion.

Ind-Ra expects the company's liquidity position to remain adequate over the medium term, supported by its healthy saleability and collections. According to the management, INR43 billion-45 billion is to be spent per year on construction over the near term for the completion of the ongoing projects and towards the new planned projects. The total value of unsold inventory from ongoing projects was above INR200 billion as of 31 March 2023. Further, the company has an unsold area of 7.01 msf from completed projects from which the collections would be received within a short span after sale. In FY23, MDL achieved presales of INR120 billion and collections of INR106 billion. Further, the company plans to repatriate another INR5.5 billion from Lodha Developers UK Limited in FY24. Since, the company was able to repatriate INR5.5 billion in FY23, Ind-Ra does not perceive repatriation to be a challenge. The cash and equivalents, undrawn limits, proceeds from the initial public offering and subsequent equity issuance, along with the operational cash flows are likely to remain sufficient to meet MDL's debt servicing requirements over the near-to-medium term.

Monetisation of Commercial Assets and Land Banks; Focus on Annuity Business: MDL has commercial properties from which it receives lease rentals. The management's ability to successfully lease or sell these commercial assets remains to be seen. MDL generated INR7.1 billion of cash flows from land monetisation in FY23. MDL had monetised 340 acres of land parcel, including a joint venture with Morgan Stanley Real Estate Investing for 72 acres, wherein MDL has a 25% share, 110 acres in the joint venture for digital platform wherein MDL has 33% share, and outright sale of land to third-party logistics companies based out of Japan and France and a US-based pharmaceutical company.

Further, the company is focusing on building up its annuity business, which would support it during economic headwinds. MDL plans to achieve a net annuity of INR5 billion by end-FY26 and about INR15 billion by the end of the decade. For this, the company would focus on its warehousing and industrial parks business, facility management business and developing a commercial asset portfolio.

Focus on Cash Flow Generation and Expansion: The group had acquired land banks in the past mainly in Palava and Upper Thane. It intends to monetise a major portion of this land towards developing a logistics and industrial park. The company has informed the agency that it will avoid any kind of speculative inventory build-up, incurring high construction cost and upfront large land acquisitions. Instead, it will focus on monetising the existing land and inventory, developing the mid-segment and affordable projects in the domestic market, with no overseas expansion plans, with an aim to match the balance construction cost against collections. The company expects to grow into under-represented micro-markets of Mumbai Metropolitan Region(MMR) and Pune through the capital-light joint development agreement route and achieve a sizeable scale in those micro-markets in the next two-to-three years. The group has signed 12 projects in MMR, Pune and Bengaluru with a gross development value of around INR200 billion in FY23. The group will continue to invest in projects that have a short project mobilisation time and can be launched in a span of six-to-nine months.

Consequently, the net debt/net working capital (FYE23: 0.39x, FYE22: 0.58x, FYE21: 1.04x), pre-sales/net debt (1.7x, 0.97x, 0.36x) and net debt/inventory (0.24x, 0.34x, 0.58x) are also likely to witness an improvement.

Leadership Position and Established Brand in MMR Micro-market: MDL belongs to the Lodha group, which has a presence of over 40 years and has delivered over 94msf of projects, and has an established track record in sales and collections. MDL derives over 90% of its bookings from MMR, where it consistently holds around 10% market share. The company has a strong brand recognition and an established reputation, which helps in securing premium pricing/faster sales.

MDL has strong operating efficiencies supplemented by internal construction competencies that help in cost optimisation and manage construction pace. The company, at FYE23, had over 27 projects under construction with a saleable area of 28msf. The company has future pipeline of 77msf, reflecting about nine years of project visibility. The inventory is a mix of luxury, premium, mid-segment and affordable segments with affordable and mid segment accounting for more than 60%. The availability of large, low-cost, land bank across MMR further supports the quick turnaround and profitability of projects.

Uptick in Residential Sales: The Indian real estate market has been seeing a consolidation wherein Grade-I players have been able to significantly outperform the rest of the market. MDL continues to benefit from this market sentiment as the home buyers are reluctant to buy under construction properties of Grade-II developers, given the completion risks, lenders' aversion to fund such builders and generally their precarious financial situation. Ind-Ra expects the Grade -I players to continue winning the market share.

Moderate Project Concentration Risk: MDL generated presales of INR120 billion in FY23 (FY22: INR90.2 billion) from 33 projects. The top five projects accounted for around 24% of the company's pre-sales in FY23 suggesting moderate project concentration.

Presence of High Ticket Size Inventory: At FYE23, MDL had ready-to-move and under construction inventory of over INR40.7 billion at its premium projects, The Park and World Towers. The timely liquidation of this inventory remains a key monitorable.

Cyclicality and Regulatory Risks: The Indian real estate industry is highly cyclical with volatile cash flows. The sector is also subject to multiple regulatory approvals; thus, the timely receipt of regulatory approval is critical for the timely launches of new project phases and future sales/collections.

Standalone Performance: On a standalone basis, the revenues increased to INR87.3 billion in FY23 (FY22: INR83.5 billion) and EBITDA margin was stable at 21% (23%).

Rating Sensitivities

Positive: A consistent improvement in the free cash flow generation, resulting in a healthy liquidity profile and a reduction in the net debt/cash flow from operations below 1.0x and net debt/net working capital below 0.30x on a sustained basis.

Negative: The following events could, individually or collectively, lead to a negative rating action:
- a decline in the operating performance such as presales and a collection of existing and proposed projects, substantial delays in project execution and cost-overruns, leading to deterioration in the financial parameters on a sustained basis,
- a decline in the free cash flow generation or a reduction in liquidity buffers leading to the net debt/cash flow from operations exceeding 1.5x and the net debt/net working capital increasing above 0.40x on a sustained basis,
- a significant increase in related party transactions.

ESG Issues

ESG Factors Minimally Relevant to Rating: The group structure under governance has relevance and moderate impact on MDL's ratings due to the group's complexity and significant related-party transactions.

Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on MDL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

Established in 1980, MDL is one of the largest real estate developers in India in terms of presales and development pipeline. It is mainly based in Mumbai and has a large presence in MMR and Pune. The company focuses on residential and commercial segments across price points. MDL has recorded presales of INR770 billion and collections of INR761 billion since FY 2014. Founded by Mangal Prabhat Lodha, MDL is now managed by his son, Abhishek Lodha (Managing Director & Chief Executive Officer).

FINANCIAL SUMMARY - CONSOLIDATED

Particulars (INR billion)	**FY23**	**FY22**
Presales	120.6	90.2
Collections	106.0	86.0
Revenue	94.7	92.3
Adjusted EBITDA *	29.7	32.4
Adjusted EBITDA margin (%)	31	35
Gross debt	90.3	111.2
Cash & equivalents**	18,5	18.2
Net debt	71.8	93.0

*Adjusted EBIDTA is calculated after grossing up of finance cost included in cost of project and forex gains/losses
**Cash and cash equivalent doesn't include long-term fixed deposits of INR1.07 billion and INR1.8 billion in FY23 and FY22.
Source: MDL, Ind-Ra

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook							
	Rating Type	Rated Limits (billion)	Rating	30 January 2023	22 November 2022	22 August 2022	23 June 2022	19 May 2022	21 December 2021	22 September 2021	
Bank loans	Long-term	INR41.4	IND A+/ Stable	IND A/ Positive	IND A/ Positive	IND A/ Positive	IND A/ Positive	IND A/ Positive	IND BBB+/ Positive	IND BBB+/ Stable	IN
NCDs	Long-term	INR2.0	IND A+/ Stable	IND A/ Positive	IND A/ Positive	IND A/ Positive	IND A/ Positive	IND A/ Positive	IND BBB+/ Positive	IND BBB+/ Stable	IN
Fund-based limits	Long-term/ Short-term	INR12.2	IND A+/ Stable/ IND A1	IND A/ Positive/ IND A1	IND A/ Positive/ IND A1	IND A/ Positive/ IND A1	IND A/ Positive/ IND A1	IND A/ Positive/ IND A1	IND BBB+/ Positive/ IND A2	IND BBB+/ Stable/ IND A2	IN
Non-fund-based limits	Short-term	INR4.8	IND A1	IND A1	IND A1	IND A1	IND A1	IND A1	IND A2	IND A2	

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
NCDs	INE670K07174	5 September-2022	9.95	5 September 2025	INR0.99	IND A+/Stable
NCDs	INE670K07182	20 September 2022	9.24	20 September 2025	INR1.01	IND A+/Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCDs	Low
Bank loans	Low
Fund-based limits	Low
Non-fund-based limits	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA

Evaluating Corporate Governance

The Rating Process

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology