
Rating Rationale for ABK Consultants Pvt. Limited's Secured Non-Convertible Debt Instruments Issue up to Rs. 600 crores (Rs. six hundred crores only) having a tenor of sixty months

NCD Issue Rating: BWR A- (SO)

Outlook : Stable

Brickwork Ratings (BWR) has assigned BWR A-(SO) (Pronounced BWR A minus (Structured Obligation)) for ABK Consultants Pvt. Ltd.(ABKC)'s proposed Non-Convertible Debt Instruments (NCD) issue up to Rs.600 crores (Rs. Six hundred crores only) backed by the pledge of unencumbered, fully paid shares of Max India Ltd. as security, having a tenor of 60 months . The NCDs will also have PUT and CALL options.

'BWR A- (SO)' rating stands for an instrument that is considered to offer ADEQUATE credit quality in terms of timely servicing of principal and interest obligations. The rating takes into account the strength of the underlying security, the structured payment mechanism including the Triggers designed for the Debenture Trustee to initiate appropriate action.

BWR has essentially relied upon the Term sheet outlining the structure of the deal, the legal opinion, collateral value analysis, audited financial results of holding company of the promoter group and information and clarification provided by ABKC.

Background

ABK Consultants Pvt. Ltd. is a Special Purpose Vehicle (SPV) promoted by the promoters of Max India Ltd. to raise an amount up to Rs. 600 crores by issue of Non-convertible Debentures against pledge of their unencumbered fully paid shares of Max India Ltd. The amount raised is proposed to be used to invest in other promoter group companies which shall use the proceeds for repayment of earlier debts and for general corporate purposes. The payment of interest and principal due to debenture holders will be made through a Payment Account charged in favour of a SEBI registered Debenture Trustee for the benefit of debenture holders. Any income receivable from pledged shares, the escrowed shares or any other charged assets will be remitted to the Payment Account maintained and operated by the appointed Debenture Trustee. Thus, a structured payment mechanism has been designed to fulfill the obligations to debenture holders.

Structure of the Transaction

The structure envisages an NCD issue up to Rs. 600 crores or equivalent value in US dollars in tranches, with a coupon of 10% per annum, and a tenor of 60 months.

The structure also provides for exercising 'Call' as well as 'Put' options subject to certain conditions. The issuer may use the 'Call' option in multiples of equivalent of \$ 10 mm at the end of the 12th month from the date of the initial drawdown or every 6 months thereafter, till maturity (5 yrs), with a 30 days notice. Investors can exercise 'Put' option in multiples of equivalent of \$ 10 mm, at the end of 24 months from the date of the initial drawdown, or every 6 months thereafter, till maturity, with a 30 days notice.

Security for the proposed NCD

The rating has factored the pledge of fully paid shares of Max India Ltd. as security for the proposed NCD by the Promoters. The pledge will be created on such number of equity shares of Max India that comprise 1.4x of the principal amount of debentures by way of an execution of a Pledge agreement in favour of a SEBI registered Debenture Trustee. Also there will be placement of such number of equity shares of Max India that comprise 0.4x of the principal amount of the Debentures with the Escrow Agent in accordance with the terms of an escrow arrangement to be entered into between the Debenture Trustee, the Escrow Agent, the Issuer and by the Obligors to be held in the Escrow Demat Account in trust for the Investors. The issuers are obliged to always maintain a minimum security cover of 1.5 times the value of the outstanding amounts towards the NCDs.

The Debenture Trustee shall monitor the value cover provided by the security on a weekly basis. The Trustee will calculate the security coverage ratio on last business day of every calendar week based on the weekly average share price of Max India. In case the lower bound of the value cover is breached, the Trustee shall intimate the company, which will be required to pledge additional shares of Max India Ltd. to restore the value cover to 1.5 times the net borrowings within 2 working days. In case the security cover cannot be maintained by further pledging of shares, then the Trustee shall be entitled to exercise a senior negative lien in respect of all Unencumbered Assets of the Promoter Group at that point in time. Such lien will thereafter be senior and in priority to any other lien or interest subsisting with respect to such assets and the debenture Trustee is authorized to take appropriate steps to protect the interest of the debenture

holders. The structure provides for certain trigger points to enable the Debenture Trustee to take immediate appropriate action.

Movements in prices of Max India Ltd Shares and sufficient liquidity in the market to absorb the sale of shares in case of need are important aspects for consideration. To assess these parameters BWR has looked at the past price performance of Max India shares and the daily turnover of the shares in value and volume terms. Max India is a mid-cap stock listed on both BSE and NSE. In the past three years it has touched a high of Rs. 290 and a low of Rs. 81. It has a beta of 1.04 which indicates it has almost the same systemic risk as the market.

Table 1

Period	Last 3 Years	Last 6 months	Last 3 months	Last 1 month
Low (in Rs)	80	98.34	181.36	181.36
High (in Rs)	289.75	244	220.88	197.83

(in NSE)

The average daily turnover of the stock (value terms, BSE and NSE combined) is as under.

Table 2

Period	Last 2 years	Last 1 year	Last 6 months	Last 3 months	Last 2 months
Average Daily turnover in Rs. Crores	7	6	10	15	16

It had an average daily turnover of 3.7 lacs shares in the past one year in volume.

Event of Default

The 'event of default' would be when the interest / repayment of principal is not paid on the due date and is not able to cure such default within a period of 2 days. The 'event of default' would also be a failure to make top-up as stipulated within 2 days. At the end of such a 2-day period, if the default persists, it shall amount to an Acceleration Event, pursuant to which the Debentures shall become due and payable immediately and the Issuer shall be required to credit the Payment Account with sufficient funds for such redemption. In the event of there being insufficient funds at the end of such further 2 day period, the Debenture Trustee shall get the right to enforce the Security and sell shares. The structure of the deal provides for the pledger granting a power of attorney to the Trustee to transfer the shares into its DP accounts and sell

them on behalf of the investor in the event of bankruptcy of the issuer. It also provides that each debenture holder shall have the right to invoke/not invoke his pro-rata share of Security and this will in no way effect the enforcement by other debenture holders. A legal opinion from a reputed solicitor's firm in this regard has confirmed that the transaction complies with the applicable Law in force and the security/structure is enforceable.

Risk Factors

There has been no dividend income on Max India shares for the last 7 years and Max India has negative cash flow from operations and has made a loss of Rs. 333 crores in 2009. The amount to be raised through the NCD issue is proposed to be used to invest in other promoter group companies which shall use the proceeds for repayment of earlier debts, as also for general corporate purposes and strategic investments. The Payment of interest falling due in respect of NCD will depend on the promoter's ability to bring in the required funds as the Issuing Company does not have any Cash flow at present. Similarly, the repayment of the NCDs is also exposed to the risk of the promoter's ability to infuse funds or they may have to resort to sale of pledged shares to meet debt service obligations. If such an eventuality affects the price of the underlying shares, it may in turn affect redemption. However, keeping in view the historical price movements of shares of Max India Ltd. in the last two years and the company's improving performance in its diversified business segments, the proposed security cover is just adequate. The structure also provides for Trigger points which empower the Debenture Trustee to take immediate appropriate action to protect the interest of the debenture holders. The role of Debenture Trustee and the securities firm is very crucial in this issue as any failure to perform their duties promptly could hurt the Debenture holders and hence appointment of an experienced and reputed Debenture Trustee and a Securities firm is vital.

Max India Ltd. - Profile

Max India Limited is a multi-business corporate, incorporated in the year 1982 with Headquarters at New Delhi. It has the following business Divisions:

MAX NEW YORK LIFE (MNYL) is a joint venture between Max India Ltd. and New York Life, a Fortune 100 company. MNYL, incorporated in 2000, is one of India's leading private sector life insurance companies. The Company offers both individual and group life insurance solutions. It has established a wide distribution network across India. Through its wide network of highly competent life insurance agent advisors and flexible product solutions, MNYL is creating a partnership for life with its customers in India to help them meet their life stage needs.

Max Healthcare (MHC) is the country's first comprehensive provider of standardized, seamless and world-class healthcare services. It is committed to very high standards of medical and service excellence, patient care, scientific and medical education. MHC operates eight centers in Delhi & NCR, offering services in over 30 medical disciplines.

Other group companies include:

- **Max Neeman Medical International (MNMI)** is a Clinical Research services provider
- **Max Specialty Products (MSP)** specializes in manufacturing of wide range of sophisticated barrier and packaging films.
- **Max Bupa Health Insurance Limited (MBHI)**, a joint venture between Max India and UK-based Bupa Group. It is on course to start operations in the next 12 months.

Consolidated balance sheet and income statement of Max India Ltd. for the period 2007 to 2009 are attached.

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BALANCE SHEET OF MAX INDIA LTD
(Rs in Lakhs)

ITEMS	2009	2008	2007
SOURCE OF FUNDS	738750.5	582328.3	287995.6
Share capital	4440.61	4434.85	3598.04
Reserves and Surplus	146677.1	149940.5	56663.61
Preference shares	25000	25000	-
LOAN FUNDS			
Secured loans	34415.38	37480.31	35278.12
Unsecured loans			
Loans	326.56	289.24	3169.11
Advances from others	-	17420.55	17420.55
	34741.94	55190.1	55867.78
Deferred Tax Liability (NET)	20.07	3421.71	2644.76
Policyholders Liability	498538.5	322742.7	156709.2
Funds for future Appropriation- Participating Policies	1694.32	4335.11	625.67
Minority Interest	27637.93	17263.31	11886.53
APPLICATION OF FUNDS	738750.5	582328.3	287995.6
Gross Block	121743.1	91717.81	78476.19
Less: Depreciation	33623.31	24457.76	18870.52
Net Block	88119.75	67260.05	59605.67
Capital Work in Progress	4910.38	4562.56	3230.68
	93030.13	71822.61	62836.35
INVESTMENTS	563788.8	484027.8	212349.1
CURRENT ASSETS, LOANS AND ADVANCES			
Inventories	4063.23	3866.45	2190.83
Sundry Debtors	27347.75	24119.94	15208.03
Cash and bank Balances	22836.87	3197.56	5823.87
Other current assets	6816.14	4750.44	2995.21
Loans and Advances	71221.65	52458.3	23941.01
Less: CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	67954.27	61669.79	38001.69
Provisions	2273.5	890.85	498.11
NET CURRENT ASSETS	62057.87	25832.05	38499.8
MISCELLANEOUS EXPENDITURE	385.24	645.83	1151.01
Profit and Loss Account	19488.37	-	

INCOME STATEMENT
(Rs in Lakhs)

ITEMS	2009	2008	2007
INCOME			
Sales	44134.41	36054.34	20506.56
Less: sales Return	(367.72)	(398.81)	(120.75)
Excise duty	(3606.19)	(3470.99)	(1959.66)
	40160.5	32184.54	18426.15
Service Income	410606.9	292220	163510.2
Income from investment activities	33024.49	32492.84	14339.93
Other income	5352.28	4157.38	3086.03
	489144.1	361054.8	199362.3
INCREASE/DECREASE IN INVENTORY	(18.87)	503.49	82.84
	489125.3	361558.3	199445.1
EXPENDITURE			
Manufacturing, Trading and Direct Expenses	341493.8	269077.1	140554.1
Personnel Expenses	84375.93	45483.79	31309.28
General and administration Expenses	84198.22	39938.56	25530.41
Financial Expenses	5057.4	4731.04	2978.16
depreciation	9700.92	6634.09	4622.02
	524826.3	365864.6	204994
(LOSS) Before Tax	(35701)	(4306.34)	(5548.84)
Tax Expenses	(2383.56)	1672.13	1572.53
(Loss) after tax	(33317.50)	(5978.47)	(7121.37)
Funds for future Appropriation- Participating Policy	2640.79	(3709.44)	(126.79)
Minority Interest	8838.07	4798.19	2275.11
NET (LOSS)	(21838.6)	(4889.72)	(4973.05)
Profit Brought Forward	3038.36	7928.08	12901.13
PROFIT/LOSS AVAILABLE FOR APPROPRIATION	(18800.3)	3038.36	-
Dividend on Preference Shares	(839.73)	-	-
Corporate Dividend Tax	(142.71)	-	-
Share of Minority Interest	294.32	-	-
Profit /loss carried forward to the balance sheet	(19488.4)	3038.36	7928.08