IN PARTNERSHIP WITH

A&O SHEARMAN



PRELIMINARY ROUND PROPOSITION

COVENANT IN CRISIS

THE NATIONAL LAW UNIVERSITY, JODHPUR

INTERNATIONAL DEAL NEGOTIATION COMPETITION

IN PARTNERSHIP WITH A&O SHEARMAN

27TH FEBRUARY - 1ST MARCH, 2026

BACKGROUND INFORMATION

Happy Homes Pvt. Ltd.

Happy Homes Pvt. Ltd. ("**Happy Homes**") is a Mumbai-based real estate start-up founded in 2015 by Rohan Mehta, a former investment banker with experience in private equity real estate. Conceived as a response to the lack of quality rental housing in India's metro cities, Happy Homes' model centres on acquiring residential properties in bulk, renovating them with modern amenities, and renting them out to young professionals and families.

The company began operations with a single refurbished housing block in Pune. By 2022, it had scaled aggressively to acquire and refurbish 10 residential complexes across Mumbai, Pune, and Bengaluru, representing nearly 2,500 rental units. Happy Homes developed a reputation for offering flexible leasing terms, improved maintenance, and community-style living facilities. Its customer base is largely urban millennials and short-term expatriates, with average tenancies ranging from 18-36 months. Happy Homes' management, led by CEO Rohan Mehta and COO Priya Nair, prides itself on "professionalizing" the rental housing market in India.

The company attracted institutional investors early on, securing a Series A round led by an Indian family office in 2020, followed by a ₹150 crore Series B round in 2021 from a Singapore-based fund. These investments fuelled rapid expansion, but also left it heavily leveraged, reliant on steady cash flows, and vulnerable to downturns in the real estate sector.

Mazagon Venture Capital

Mazagon Venture Capital ("**Mazagon VC**") is a Mumbai-based private credit fund established in 2009, with approx. ₹8,500 crore in assets under management. The firm focuses on lending to mid-market companies in infrastructure, manufacturing, and real estate. Its capital comes from domestic insurance companies, high-net-worth individuals, and overseas pension funds seeking exposure to India's private credit market.

Mazagon VC has built a reputation for stringent covenant structures, proactive monitoring, and aggressive intervention in response to borrowers' underperformance. The fund's philosophy is shaped by its Managing Partner, Naina Singh, a seasoned financier known for her emphasis on disciplined portfolio risk management.

The fund's internal processes are notably rigorous: borrower performance is reviewed quarterly, and portfolio companies are subject to regular site visits and independent collateral valuations. While some borrowers describe Mazagon as an "intrusive" lender, its investors value the transparency and accountability this approach provides.

Mazagon VC's recent focus has been on the real estate sector, which it views as a high-yield but high-risk segment requiring vigilant oversight. Its investors are particularly sensitive to signs of covenant breaches, and Mazagon's credibility depends on demonstrating a proactive response to early distress signals.

GENERAL INFORMATION

In February 2023, Happy Homes entered into a term loan agreement with Mazagon VC for a facility of ₹300 crore. The facility is secured by a first-ranking charge over identified property portfolio of Happy Homes together with customary assignment of receivables. The loan was intended to finance the acquisition and refurbishment of additional residential complexes across Mumbai, Pune, and Bengaluru, thereby expanding Happy Homes' portfolio and solidifying its position as a rising player in the urban rental housing market. The financing carried certain key conditions, including a minimum quarterly Debt Service Coverage Ratio ("DSCR") of 1.5x, a floating interest rate pegged at 6-month MIBOR plus a 4.5% margin, and a broadly drafted Material Adverse Event (MAE) clause that allowed Mazagon to revisit collateral valuations and renegotiate terms in the event of significant negative developments. At the time of signing, Happy Homes was in strong financial health, with a DSCR of 1.67x and a property portfolio conservatively valued at ₹375 crore, comfortably covering the facility.

For over a year, the arrangement appeared mutually beneficial. Happy Homes expanded its footprint and maintained high occupancy rates, while Mazagon enjoyed steady returns in line with its expectations. However, the latter half of 2024 brought an unexpected downturn in the Indian residential rental sector. A combination of macro-economic factors such as oversupply in metropolitan housing, slowing job growth, and the Reserve Bank of India's tightening cycle caused rental yields to decline sharply. In several of Happy Homes' complexes, especially in Pune, occupancy fell to as low as 80%. Net operating income dropped accordingly, and by the fourth quarter of 2024, the company's DSCR had slipped to 1.12x, marking a clear breach of its covenant obligations.

Concurrently, collateral valuations suffered. Two independent appraisers assessed the portfolio in late 2024, with one placing its value at ₹295 crore based on an income approach and another at ₹310 crore using market comparables. Both were significantly below the original valuation of ₹375 crore. At the same time, floating interest obligations rose as MIBOR increased by 75 basis points ("**bps**"). Together, these developments strained Happy Homes' liquidity and eroded the coverage cushion that had underpinned Mazagon VC's credit exposure.

In January 2025, Mazagon VC formally invoked the MAE clause, citing both the breach of the DSCR covenant and the substantial decline in collateral value. Pursuant to Clause 14.3, Mazagon VC issued written notice specifying the grounds for

invocation, and the Parties agreed to engage in good-faith negotiations within the prescribed 30-day window. The discussions quickly narrowed to the following three key issues:

DSCR Covenant

Happy Homes has requested a temporary waiver lowering the ratio requirement to 1.2x for three quarters, with a reversion to 1.5x once its acquisition of two additional residential complexes was operational. Mazagon VC, wary of prolonged covenant slippage, countered with a shorter relaxation to 1.3x for two quarters, tied to enhanced financial reporting obligations.

Collateral/Security Coverage

While Mazagon VC insisted on additional security to reflect the lower valuations, Happy Homes argued that no unencumbered assets remained to pledge. Instead, it offered a parcel of land in Pune, acquired in 2020 for ₹120 crore, as contingent security. The land is currently subject to an ownership dispute before the Bombay High Court, with a rival claimant alleging irregularities in the original transfer. Legal counsel for Happy Homes has estimated a sixty-percent chance of favourable resolution within twelve months, but until the litigation concludes, the property cannot be cleanly mortgaged.

Interest Margin

Mazagon VC proposed raising the spread from 4.5% to 6.25% to reflect heightened risk, while Happy Homes offered a temporary increase of only 25 bps, subject to step-downs once its DSCR recovered above 1.5x.

Reporting and Milestones

Mazagon VC is pushing for monthly reporting obligations (from the current quarterly requirement) along with a 13-week cashflow forecast and regular site audits. Happy Homes is keen to minimise intrusive reporting to the extent possible, although it is acknowledged that heightened reporting will be required to some degree. Mazagon VC would also like to have hard operating and financing milestones agreed with remedies where these are not met.

Both parties thus enter these negotiations from positions of vulnerability. Rohan Mehta, along with his in-house counsel Kiran Sharma must secure breathing room to preserve Happy Homes' equity fundraising and avoid a downward spiral in confidence. Sonal Kaur (Director at Mazagon VC) advised by Arya Dutt must demonstrate to investors that Mazagon is protecting collateral value and enforcing discipline without appearing excessively lenient. The outcome of these talks will determine not only the future of the loan but also the reputations of the borrower and lender in their respective markets.

ANNEXURE 1: RELEVANT CLAUSES OF LOAN AGREEMENT

13. Financial Covenants

13.1. **Debt Service Coverage Ratio**: The Borrower shall ensure that, on each Calculation Date, the Debt Service Coverage Ratio ("**DSCR**") is not less than 1.50:1.00, calculated on a rolling four-quarter basis in accordance with Schedule III hereto.

13.2. **Calculation**: For the purposes of this Agreement, "Debt Service Coverage Ratio" shall mean the ratio of (i) Net Operating Income for the relevant period to (ii) Total Debt Service (including both scheduled principal amortization and accrued interest) for such period.

13.3. **Covenant Breach**: Failure to maintain the DSCR at the stipulated level shall constitute an Event of Default, unless remedied within the Cure Period of sixty (60) days.

14. Material Adverse Event

14.1. **Definition**: A "Material Adverse Event" ("**MAE**") shall mean any event, circumstance, or change which, in the reasonable opinion of the Lender, (i) materially impairs the Borrower's ability to perform its payment or other obligations under this Agreement, or (ii) materially and adversely affects the value, enforceability, or priority of the Collateral securing the Facility, or (iii) constitutes a material adverse change in the business, operations, or financial condition of the Borrower, including but not limited to a significant downturn in the real estate sector.

14.2. **Consequences**: Upon the occurrence of a Material Adverse Event, the Lender shall have the right to:

a) revalue the Collateral securing the Facility and demand additional security;

b) revise the Applicable Margin or interest terms;

c) impose enhanced reporting or monitoring obligations; and

d) renegotiate the financial covenants, including but not limited to the DSCR Covenant.

Any revisions shall be documented in an amendment and waiver agreement, including time-bound milestones and remedies.

14.3. **Notice**: The Lender shall provide written notice to the Borrower specifying the grounds for invocation of this clause. Any negotiations arising therefrom shall be conducted in good faith within thirty (30) days of such notice.

ANNEXURE 2: FINANCIAL STATEMENTS

A. Summary Income Statement (FY 2024)

Quarter (2024)	Gross Rental Income	Operating Expenses	Net Operating Income (NOI)	Debt Service (Interest + Principal)	DSCR
Q1	86.0	31.0	55.0	32.9	1.67
Q2	84.5	32.0	52.5	35.0	1.50
Q3	80.0	32.5	47.5	37.8	1.26
Q4	76.5	32.0	44.5	39.8	1.12

B. Collateral Valuation Reports (December 2024)

Valuation Report A – Income-Based Approach (Prepared by CityVal Advisors Pvt. Ltd.)

- Net annual rental yield (capitalized): ₹29.5 crore
- Capitalization rate: 10%
- Valuation: ₹295 crore
- Commentary: Occupancy risk and declining rental yields suggest a conservative approach is warranted.

Valuation Report B – Market Comparables Approach (Prepared by Horizon Real Estate Consultants)

- Benchmark transactions in comparable metro projects (last six months): ₹9,000–9,500 per sq. ft.
- Adjusted average applied to Happy Homes' portfolio: ₹9,250 per sq. ft.
- Valuation: ₹310 crore
- Commentary: Rental market remains under pressure, but long-term fundamentals in urban housing are intact.

C. Contingent Security (Pune Land Parcel)

- Acquired by Happy Homes in 2020 for ₹120 crore.
- Currently subject to title dispute in the Bombay High Court.
- Legal opinion (dated November 2024) estimates **60% chance of favourable resolution within 12 months**.
- Estimated current fair market value (if dispute resolved): ₹130–135 crore.
- Market rumours indicate the opposing claimant may accept a settlement in the range of ₹20–25 crore.