May 12, 2022

RMZ Construction (India) Private Limited: [ICRA]BBB+ (Stable) rating assigned to term loans

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	650.00	[ICRA]BBB+(Stable); assigned
Total	**650.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating factors in the strong execution track record of the RMZ Group in the real estate space. RMZ Group is one of the leading players in the commercial real-estate segment in Bengaluru and has completed over 20 million square feet (mn sq ft) of development across several cities. The rating takes into account the construction finance debt tie-up and the equity infusion by Canada Pension Plan Investment Board (CPPIB) in FY2022 which significantly mitigates the project's funding risks. In FY2022, RMZ Construction (India) Private Limited (RCIPL/the company) became a joint venture between the RMZ Group and CPPIB, held 50:50 between the two JV partners. MRPL and CPPIB have also extended letter of comfort (LOC) for any shortfall in project cost/repayment of up to Rs 125 crore each. The rating takes into account the favourable location of the project, which enhances its marketability.

The rating is constrained by the company's exposure to market and refinancing risks. The company has not leased any portion of the available space, exposing the project to significant market risk. Nevertheless, the company is in discussions with prospective tenants to lease the vacant spaces and expects to achieve adequate leasing before the project is completed. Notwithstanding the Group's track record, any significant delay in project handover or lower-than-expected leasing could adversely impact the company's cash flow and its ability to refinance the construction loan outstanding. The comfortable moratorium on the rated debt facility till April 2025, compared to the DCCO date of April 2024, partly mitigates the risks arising due to any delay in the development or leasing of the project. Further, the rating is constrained by the nascent stage of the project as on date, exposing it to execution risks. ICRA, however, notes that financial closure has been achieved and adequate funding is in place to complete the project within the budgeted cost and time.

The Stable outlook reflects ICRA's expectation that RCIPL will continue to benefit from the operational track record of its promoter Group and the favourable project location.

Key rating drivers and their description

Credit strengths

Group's track record in commercial real estate – RCIPL is part of the RMZ Group, which has completed nearly 20 mn sqft of commercial real estate development across cities such as Bengaluru, Chennai, Hyderabad, Pune, Kolkata and Gurgaon. The Group has a track record of timely completion of large projects with high occupancy levels across its properties.

Favourable location of the project – The RMZ Spire project is located in Hitec City, Hyderabad, which has seen a significant growth in demand and absorption of leased office space. The Group has completed The Skyview, a 3.9-mn-sq-ft office building in the vicinity of Spire, where the occupancy levels are now higher than 90%. The favourable location of the project is expected to translate into adequate pre-leasing status by the scheduled completion date.

Low funding risks with recent equity infusion commitments in place - The under-construction phase is expected to be funded partly by debt and partly through a mix of promoter fund infusion and security deposit received from the tenants. The sponsor contribution to the project is supported by the recent equity infusion by CPPIB in FY2022. The undrawn bank lines will help mitigate any funding risks.

Credit challenges

Execution risk – The RMZ Spire project involves the development of 1.7 million square feet (mn sqft) of leasable office space (RCIPL share of 1.0 mn sqft) in Hitec City, Hyderabad. The project was launched in April 2019 and the construction is expected to be concluded over the next two years. Given the nascent stage of the project as on date, the project is exposed to execution risks. ICRA, however, notes that financial closure has been achieved and adequate funding is in place to complete the project within the budgeted cost and time.

Significant market risk – The company has not leased any portion of the available space, exposing the project to significant market risk. Nevertheless, the company is in discussions with prospective tenants to lease the vacant spaces and expects to achieve healthy leasing before the project is completed. Notwithstanding the Group's track record and low vacancy in the project's micro-market currently, the company is exposed to the risk of any decline in demand with the increased supply of under-construction office space in Hyderabad.

Exposure to refinancing risk - Any delay in construction or lower-than-expected leasing could adversely impact the company's cash flow and its ability to refinance the construction loan. Nevertheless, the comfortable moratorium till April 2025, compared to the targeted DCCO date of April 2024, partly mitigates the risks arising due to delays in the development or leasing of the project.

Liquidity position: Adequate

The liquidity position of the company is adequate, supported by adequate undrawn construction finance loan. In H2 FY2022, the company has already received a total committed equity infusion from CPPIB for the project. A debt service reserve account (DSRA) covering three months of interest payments due lends further comfort.

Rating sensitivities

Positive factors – Faster-than-expected leasing and construction progress will provide higher visibility on the timely refinancing of construction debt and could lead to a rating upgrade. Further, a favorable movement in the credit profile of its sponsors could have a positive impact.

Negative factors – Downward pressure on the rating could emerge if any delay in timely completion or adequate leasing of the office space impacts the company's ability to timely refinance the outstanding construction finance loan. Further, any weakening of the credit profile of the sponsors could have a negative impact on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for debt backed by lease rentals
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of RCIPL.

About the company

RMZ Construction (India) Private Limited (RCIPL) is a special purpose vehicle (SPV) incorporated by the RMZ Group for the execution of the RMZ Spire project in Hyderabad. The project involves the development and leasing of 1.7 mn sq ft of office space in Knowledge City, Hyderabad, on a 5-acre land parcel. The project is being developed under a joint development agreement (JDA) wherein RCIPL's share of the ownership in leasable area will be 1.0 mn sq ft (60%). RMZ Construction (India) Private Limited (RCIPL/the company) is a 50:50 joint venture between the Group and Canada Pension Plan Investment Board (CPPIB). The construction of the project started in the end of FY2019 and is expected to be completed by FY2024.

Key financial indicators (audited)

RCIPL standalone	FY2020	FY2021
Operating Income (Rs. crore)	-	-
PAT (Rs. crore)	0.6	11.1
OPBDIT/OI (%)	-	-
PAT/OI (%)	-	-
Total Outside Liabilities/Tangible Net Worth (times)	1708.2	-43.8
Total Debt/OPBDIT (times)	-172.8	-11.7
Interest Coverage (times)	-	-

Note: The project being developed by the company is still in construction stage and hence no revenue has been reported till date.

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note: Amount in Rs. crore; All calculations are as per ICRA Research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years:

	Instrument	Current Rating (FY2023)				Chronology of Rating History		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating in	FY2022	FY2021	FY2020
					May 12, 2022			
1	Term loans	Long Term	650.00	50.00	[ICRA]BBB+ (Stable)	-		

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loans	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Term Loan-I	June 2021	NA	Apr-2025	500.00	[ICRA]BBB+ (Stable)
NA	Term Loan-II	July 2021	NA	Apr-2025	150.00	[ICRA]BBB+ (Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Mathew Kurian Eranat
+91 80 4332 6415
mathew.eranat@icraindia.com

Ritika Mundhra
+91 80 4332 6412
ritika.mundhra@icraindia.com

Abhilash Sirsikar
+91 22 6114 3421
abhilash.sirsikar@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.