

June 24, 2022

RMZ City Estates Private Limited (erstwhile Prestige City Properties): Rating upgraded to [ICRA]A- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Term Loan	963.88	1200.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Long-term - Unallocated	286.12	50.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Total	1,250.00	1,250.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in the successful leasing and rent commencement from 100% of the area in the office property, RMZ Star Tech developed by RMZ City Estates Private Limited (RCEPL / earlier known as Prestige City Properties) in Koramangala, Bengaluru. The earlier construction finance loans availed have been refinanced into a lease rental discounting loan with adequate debt coverage metrics. In FY2022, Prestige Group (erstwhile partner in this entity) sold their ownership to a company affiliated to Canada Pension Plan Investment Board group (CPPIB), resulting in a 51% stake of CPPIB in RCEPL. The rating also considers the track record of the promoters of RCEPL in the commercial real estate segment. The RMZ Group is one of the leading developers of commercial real-estate, with operation in Bengaluru, Chennai and Hyderabad.

The firm has leased 100% of the area available in the project as on date, as against 88% as on May 2021. The rating considers the prime location of the property and the reputed profile of the tenants which include Accenture Solutions Private Limited (Accenture). The rating also draws comfort the maintenance of a debt service reserve account (DSRA)¹ equivalent to three months debt obligations for the rated lease rental discounting (LRD) loan.

The rating is, however, constrained by the risks associated with high tenant concentration risk with Accenture leasing 60% of the area. The rating also considers the high leverage with an estimated Debt/NOI of 7.6 times in FY2023. High leverage has resulted in moderate debt coverage metrics on the LRD loan, with DSCR expected to remain in the range of 1.15x - 1.20x over the medium term. The debt coverage ratio will be sensitive to changes in interest rates and occupancy levels.

The stable outlook on the [ICRA]A- rating reflects ICRA's opinion the RCEPL will continue to benefit from the prime location of the property as well as the strong operational track record of the promoters in the commercial real estate segment.

Key rating drivers and their description

Credit strengths

Strong promoter profile with established track record in the commercial real estate business: RCEPL is promoted by Canada Pension Plan Investment Board (CPPIB) and Millenia Realtors Private Limited (RMZ Group). RMZ Group has completed nearly 20 mn sqft of commercial real estate development across cities such as Bangalore, Chennai, Hyderabad, Pune, Kolkata, and

¹ While the lender has the right to dip into the DSRA, the rated instrument does not have a DSRA invocation mechanism.

Gurgaon. The group has demonstrated track record of timely completion of large-sized projects with high occupancy levels maintained across its properties.

Prime location of the project: RCEPL has developed an office property called RMZ Star Tech which has a leasable area of 13.7 lakh sq. ft. The project is located at Koramangala in Bengaluru. The project is well connected by Hosur Road as well as Outer Ring Road which is at a distance of 2 km from the project location.

100% Occupancy: The property has reached 100% leasing and rent commencement by FY2022. The firm has leased 100% of the area as on date, as against 88% as on May 2021. It has a reputed tenant profile which includes Accenture. Accenture has a long lease tenure of 10 years with availability of further renewal options.

Credit challenges

High tenant concentration: RCEPL is exposed to tenant concentration risk with the largest tenant occupying 60% of the available space and only two other tenants occupying the balance area. However, the risk is mitigated through the profile of the tenants as well as by the long lease tenures (including renewal options) and lock-ins which are currently in place. Further, the contracted rent rates are competitive in relation to the market rate in the property vicinity.

High leverage and moderate debt coverage: The leverage for the entity remains high with an estimated Debt/NOI of 7.6 times as of March 2023. High leverage has resulted in moderate debt coverage on the LRD loan, with DSCR expected to remain in the range of 1.15x - 1.20x over the medium term. The debt coverage ratio will be sensitive to changes in interest rates and occupancy levels. However, the rating draws comfort the maintenance of a DSRA equivalent to three months debt obligations for the LRD loan.

Liquidity position: Adequate

RCEPL's liquidity profile is expected to remain adequate, given the expected stable generation of rental income from the leased area which is adequate to meet the debt servicing obligations. Additionally, the firm had free cash balances of Rs 21.36 crore as of May 2022, besides DSRA equivalent to three months of debt obligations for the LRD loans i.e., Rs. 34 crores.

Rating sensitivities

Positive factors –The rating can be upgraded if the company is able to sustain high occupancies and improve the leverage levels and debt coverage metrics. Specific credit metric leading to an upgrade could be five-year average DSCR remaining more than 1.25 times on a sustained basis.

Negative factors – Downward pressure on the rating could arise if any delay in timely rental receipts or any decline in occupancy levels or increase in indebtedness position from the current debt levels, leads to five-year average DSCR remaining less than 1.1 times on a sustained basis.

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	The rating is based on the standalone financial statements of RCEPL

About the firm

RCEPL is a private limited company which is held by Canada Pension Plan Investment Board (CPPIB) and Millennia Realtors Private Limited in a 51:49 ratio. In FY2022, Prestige Group (erstwhile partner in this entity) sold their ownership to a company affiliated to the Canada Pension Plan Investment Board group (CPPIB). The company has developed a commercial office property with a leasable area of 13.7 lakh sq. ft. called RMZ Star Tech at Koramangala in Bengaluru. The firm has leased 100% of the available area as on date.

Key financial indicators

RCEPL	Audited	Provisional
	FY2021	10mFY2022
Operating Income (Rs. crore)	47.8	98.3
PAT (Rs. crore)	-80.0	-36.6
OPBDIT/OI (%)	38.6%	90.6%
PAT/OI (%)	NM	NM
Total Outside Liabilities/Tangible Net Worth (times)	0.9	2.9
Total Debt/OPBDIT (times)	52.2	14.2
Interest Coverage (times)	0.3	1.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, NM: Not meaningful

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 for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				June 24, 2022	May 25, 2021	April 08, 2020	-
1 Term Loans	Long-term	1,200.00	963.88	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2 Unallocated	Long-term	50.00	286.12	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Term Loan	Simple
Long-term - Unallocated ²	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 analysing an entity's financial, business, industry risks or

² The complexity categorisation is as per the latest understanding of ICRA and is subject to change once the issuance terms are finalised.

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	July 08, 2021	NA	Jul 31, 2031	1,100.00	[ICRA]A- (Stable)
NA	Term Loan - II	July 08, 2021	NA	Apr 30, 2030	100.00	[ICRA]A- (Stable)
NA	Unallocated	-	-	-	50.00	[ICRA]A- (Stable)

Source: Firm

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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