

June 29, 2022

Arliga Galleria (India) Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Term Loan	300.00	300.00	[ICRA]BBB (Stable); Reaffirmed
Total	300.00	300.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to derive comfort from Arliga Galleria (India) Private Limited's (AGIPL) (formerly RMZ Galleria India Private Limited) strong financial flexibility being a part of Brookfield Group (the Group) and AGIPL's adequate liquidity position, which is underpinned by free cash balances of Rs. 42.70 crore and debt service reserve account (DSRA) of Rs. 7.6 crore as on May 31, 2022. The rating continues to factor in the established track record of AGIPL's sponsor – Brookfield Management Fund. The Group is one of the largest real estate investment managers globally and has an established track record in India. This apart, the rating factors in the mall's favourable location at Yelahanka, Bengaluru and its reputed tenant profile which includes retail stores such as Inox, Lifestyle, Reliance Digital, Max Hypermarket and Global Kitchen, amongst others.

The rating, however, is constrained by the adverse impact of the pandemic on the operational and financial metrics of the company. Apart from concessions and waivers granted to tenants during the pandemic affected period, there has been stagnation in the occupancy at around 89% along with reduction in weighted average rent from the property, which is expected to result in weak debt coverage metrics in the near term as well. Nonetheless, ICRA expects that the company will continue to maintain cash and bank balances of around Rs. 20 crore – Rs. 25 crore, apart from the DSRA, which will bridge the shortfalls in the near term. The rating is also constrained by high leverage levels and resultant modest debt coverage metrics. The rating considers the high lessee concentration risk with top five tenants occupying 60% of total leased area as on March 31, 2022.

The Stable outlook on the rating reflects ICRA's opinion that AGIPL will continue to benefit from the financial flexibility that arises from being a part of the Brookfield Group, its adequate liquidity position and the expected improvement in its occupancy and rental rates.

Key rating drivers and their description

Credit strengths

Strong sponsor group with established track record – Brookfield Group is one of the largest real estate investment managers globally and have an established track record in India. They have track record in management of real estate properties and significant financial flexibility, which is likely to benefit AGIPL.

Favourable location, occupancy, and reputed tenant profile – Galleria Mall, with a total leasable area of 0.31 million sq. ft., has reputed tenants such as Inox, Lifestyle, Reliance Digital, Global Kitchen, and Max Hypermarket, amongst others. It is favourably located at Yelahanka, Bengaluru which is the primary catchment area of the mall and has established residential development which supports demand prospects. Due to the impact of the pandemic, the mall's occupancy remained flat at 89% as on March 31, 2022 (as compared to 87% as on March 31, 2021). Going forward, the occupancy is expected to increase

further with incremental lease tie-ups. The company's lease expiry profile remains favourable with no major leases expiring over the next 12 months period. The weighted average lease expiry for the present leases is nearly 10 years, as compared to the residual debt tenure of nearly 11 years.

Liquidity support through DSRA and additional cash infusion from sponsors – Post acquisition by Brookfield, the sponsors have infused funds in the company. As a result, the company has adequate cushion in the form of unencumbered cash balances, which stood at Rs. 42.70 crore as on May 31, 2022. The liquidity is also supported by the presence of DSRA of Rs. 7.60 crore, covering three months of debt obligations.

Credit challenges

Adverse impact of the pandemic – Operations of the mall were adversely impacted in FY2021 and partly in FY2022 due to Covid-19 related lockdown and subdued footfalls and trading values after reopening. Consequently, the mall had provided rental waivers and deferments to its retail tenants during FY2022 as well, as seen in FY2021, which has adversely impacted its operational cash flows. Along with stagnation in the occupancy level, there has also been a reduction in the weighted average rent in the property, which results in weak debt coverage indicators in the near term.

High leverage – The company has an LRD loan against the rentals from the mall with estimated Debt / NOI of around 10 times for FY2023. Due to the high leverage, the DSCR is expected to remain modest in the near term. Nonetheless, the availability of adequate liquidity in the company provides comfort in terms of meeting shortfall, if any, for its debt servicing obligations. Further, expected improvement in occupancy and rent rates will also result in moderation in leverage levels.

Lessee concentration – The mall is exposed to moderate concentration risks with top five tenants occupying close to 60% of total leased area while contributing 44% of total minimum guaranteed rental revenue (as of March 2022), thus further exposing the company to vacancy risks. The company is also exposed to asset concentration risk which is inherent in single property nature of development.

Liquidity position: Adequate

AGIPL's liquidity is expected to remain adequate, as characterised by the availability of unencumbered cash balance of Rs. 42.70 crore as on May 31, 2022. This apart, the company also had DSRA balance of 3 months' interest and principal repayment of Rs. 7.60 crore as on May 31, 2022, which further supports its liquidity. While ICRA anticipates some shortfall in the operational cash flows for meeting the debt servicing obligations, the company's adequate liquidity available in the form of free cash balances is likely to bridge the gap.

Rating sensitivities

Positive factors – Faster than anticipated recovery in rental inflows from the mall resulting in improved debt coverage metrics could be a trigger for upgrade; specific factors include cumulative DSCR of more than 1.2 times.

Negative factors – Negative pressure on AGIPL's rating could arise for reasons including any further deterioration in operational cash flows and/or occupancy, resulting in weaker debt coverage metrics. Any material depletion in its liquidity profile in relation to the upcoming debt maturities will also cause a negative pressure 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	Standalone

About the company

AGIPL currently owns a retail mall named 'Galleria Mall' with 0.3 million sq. ft. leasable area at Yelahanka, Bengaluru and opened to public in September 2018. The mall has moderate occupancy of 89% (as on March 31, 2022) with reputed clientele such as Inox, Lifestyle, Reliance Digital, Max Hypermarket and Global Kitchen, amongst others. AGIPL was incorporated as RMZ Galleria India Private Limited. Now, AGIPL is currently 100% held by BSREP III New York II (DIFC) Limited post acquisition by Brookfield Group from RMZ Group in FY2021.

Key financial indicators

AGIPL Standalone	FY2021	FY2022 Prov.
Operating Income (Rs. crore)	24.36	26.08
PAT (Rs. crore)	-96.56	2.53
OPBDIT/OI (%)	16.74%	22.29%
PAT/OI (%)	-396.45%	9.70%
Total Outside Liabilities/Tangible Net Worth (times)	-2.63	-2.65
Total Debt/OPBDIT (times)	158.97	111.50
Interest Coverage (times)	-2.50	1.11

Prov. – Provisional; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

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 on May 31, 2022 (Rs. crore)	Date & Rating on June 29, 2022	FY2022	FY2021	FY2020
1 Term Loan	Long-term	300.00	279.90	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- & October 09, 2020	[ICRA]BBB- (Stable) May 10, 2019

& - under watch with developing implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Fund-based Term Loan	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 complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are 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	May 2018	NA	June 2033	300.00	[ICRA]BBB (Stable)

Source: AGIPL and ICRA

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

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