August 16, 2022

RMZ Hotels 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	1800.00	1800.00	[ICRA]A- (Stable); reaffirmed
Total	1800.00	1800.00	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation for RMZ Hotels Private Limited (RHPL) continues to factor in the presence of strong promoters (50% stake each by RMZ Group and Mitsui Fudosan Group) with an established execution track record in the real estate space, which lends financial flexibility. The RMZ Group is one of the leading players in the commercial real estate segment in Bangalore and has developed over 20 million square feet (mn sqft) of area across several cities. Mitsui Fudosan (Asia) Pte. Ltd (Mitsui), is a part of the Mitsui Fudosan Group, one of Japan's prominent real estate company and part of the larger Mitsui conglomerate. The rating considers the favourable location of the project on Outer Ring Road in Bangalore, which is expected to translate into adequate pre-leasing by the scheduled completion of the project. The rating also derives comfort from the limited funding risk for the project with the sanction of construction finance (CF) loan worth Rs. 1,800.0 crore in place and infusion of the entire equity requirement of Rs. 1,281 crore as on March 31, 2022, leading to comfortable debt to equity ratio of 1.4:1 for the project.

The rating is, however, constrained by the execution and leasing risks due to the moderate stage of the project. While two out of four towers are nearing completion, the moderate construction progress for the other two towers (with expected completion by March 2024) exposes the company to execution risk. Additionally, there has been no pre-leasing achieved as on date, which exposes it to significant market risk. While there is a healthy pipeline of prospective tenants, materialisation of the same into leasing tie-ups over the coming few months would be a key rating monitorable. Any delays in project completion or lower-than-expected leasing due to downturns in the demand prospects for office space in the city may adversely impact its refinancing ability. Nonetheless, ICRA notes that the project's micromarket witnesses the highest absorption of office space in the city and the existing Ecoworld campus operates at close to 100% occupancy with a reputed tenant profile.

The Stable outlook reflects ICRA's expectation that RHPL will continue to benefit from the operational track record of its sponsors and the project would be able to achieve adequate pre-leasing tie-up over the coming few months, driven by healthy pipeline and its favourable location.

Key rating drivers and their description

Credit strengths

Strong promotor group with established track record lends financial flexibility – RHPL is part of the RMZ Group, which has developed over 20 mn sqft of commercial real estate space across Bangalore, Chennai, Hyderabad, Pune, Kolkata and Gurgaon. The Group has a demonstrated track record of timely completion of large-sized projects with high occupancy levels across its properties. The strong promoter group with a demonstrated track record in commercial real estate development lends healthy financial flexibility for RHPL.

Favourable project location – RMZ Ecoworld 30 project is located on Outer Ring Road (ORR), Bangalore, which has seen a significant growth in demand and absorption of leased office space. The Group has demonstrated healthy performance in the earlier phases of Ecoworld campus. The favourable location of the project is expected to translate into adequate pre-leasing status by the scheduled completion.

Equity funds raised from external investor result in comfortable capital structure – The company has received sanction for the entire Rs. 1,800.0-crore CF loan planned for the project. The budgeted equity for the project stands at Rs. 1,281 crore. The Mitsui Group has already infused a total equity of Rs. 1,314 crore, for a 50% stake in RHPL. The equity funds raised results in a comfortable debt to equity ratio of 1.4:1 for the project; consequently, the break-even occupancy levels for refinancing of the project CF debt are relatively lower.

Credit challenges

Moderate execution risk – The RMZ Ecoworld 30 project involves development of 3.5 mn sqft of leasable office space. The project was launched in September 2019 and its construction is expected to be concluded by March 2024. Among the four blocks being constructed, two are nearing completion, with the occupancy certificate (OC) expected to receive shortly in line with the targeted completion timelines and ahead of the scheduled date of commencement of commercial operations. The moderate stage of construction for the remaining two towers (with expected completion by March 2024) exposes the company to execution risk.

Market risk – The company has not achieved any pre-leasing tie-ups for the project till date, which enhances the market risk. However, there is a healthy pipeline of prospective tenants, and RHPL expects to tie-up considerable space by the end of the current calendar year. Notwithstanding the Group's track record and low vacancy levels in the 7.5 mn sqft completed and leased out buildings in the earlier phases of Ecoworld campus, the company is susceptible to any decline in demand in the market, exacerbated by the adverse impact of the pandemic.

Exposure to refinancing risk – Any delay in construction or lower-than-expected leasing could adversely impact the company's cash flow position and its ability to refinance the construction loan. The refinancing risk is mitigated to an extent by the relatively low leverage in the project, which will reduce the breakeven leasing required for comfortable refinancing of the loans.

Liquidity position: Adequate

RHPL's liquidity is adequate, supported by the presence of undrawn construction debt of around Rs. 811 crore and surplus free cash balances of Rs. 567 crore as on March 31, 2022. Additionally, the expected security deposit inflows on lease tie-ups are likely to support the project's overall funding requirements. The available sources of funds are adequate to meet the pending project cost, with additional buffer available. The CF loan of Rs. 1,800 crore has a bullet repayment (Rs. 450 crore in March 2024 and Rs. 1,350 crore in October 2024) and is expected to be refinanced with a lease rental discounting (LRD) loan post commercialisation of the asset.

Rating sensitivities

Positive factors – RHPL's rating might be upgraded if there are significant leasing tie-ups at adequate rental rates resulting in strong debt protection metrics. Specific credit metric that can trigger a rating upgrade include debt by annualised net operating income (NOI) ratio of less than 6 times.

Negative factors – The rating could be downgraded in case of material cost overruns or inability to achieve the adequate leasing tie-ups over the next year. Specific metric that can trigger a rating downgrade includes DSCR (forward) of less than 1.15 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate credit rating methodology Rating Methodology for Debt Backed by Lease Rentals
Parent/Group Support	NA
Consolidation/Standalone	ICRA has evaluated the standalone operational and financial profile of RHPL.

About the firm

RMZ Hotels Private Limited (RHPL), incorporated in 2006, earlier operated as a holding company for Akarshak Infrastructure Private Limited (AIPL), undertaking construction of a commercial office space project named EW30 on ORR, Bangalore. Through an NCLT order, AIPL was amalgamated into RHPL, effective from the appointed date of April 01, 2019. The company is jointly owned by the RMZ Group and Mitsui Fodasan. While RMZ Group is one of the leading players in the commercial real estate segment in Bangalore, Mitsui Fudosan Co. Ltd. is an eminent real estate developer in Japan.

The construction of the commercial office project – Ecoworld 30 – started in FY2019 and is expected to be completed by FY2024. The land for the project, measuring 14.2 acres, is owned by the special purpose vehicle (SPV) and civil construction for development of 3.5 mn sqft of commercial office space is in progress at present. The project is being part funded by a term loan of Rs. 1,800 crore.

Key financial indicators

RHPL	Audited	Audited
	FY2021	**FY2022**
Operating income (Rs. crore)	-	-
PAT (Rs. crore)	-80.3	-56.7
OPBDIT/OI (%)	NM	NM
PAT/OI (%)	NM	NM
Total outside liabilities/Tangible net worth (times)	1.8	1.4
Total debt/OPBDIT (times)	-29.0	-27.9
Interest coverage (times)	-0.5	-1.4

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		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					August 16, 2022	May 17, 2021	-	-
1	Term loans	Long-term	1800.00	975.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – 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 I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan-I	March 2019	-	March 2024	450.0	[ICRA]A-(Stable)
NA	Term loan-II	July 2020	-	October 2024	900.0	[ICRA]A-(Stable)
NA	Term loan-II	July 2020	-	October 2024	450.0	[ICRA]A-(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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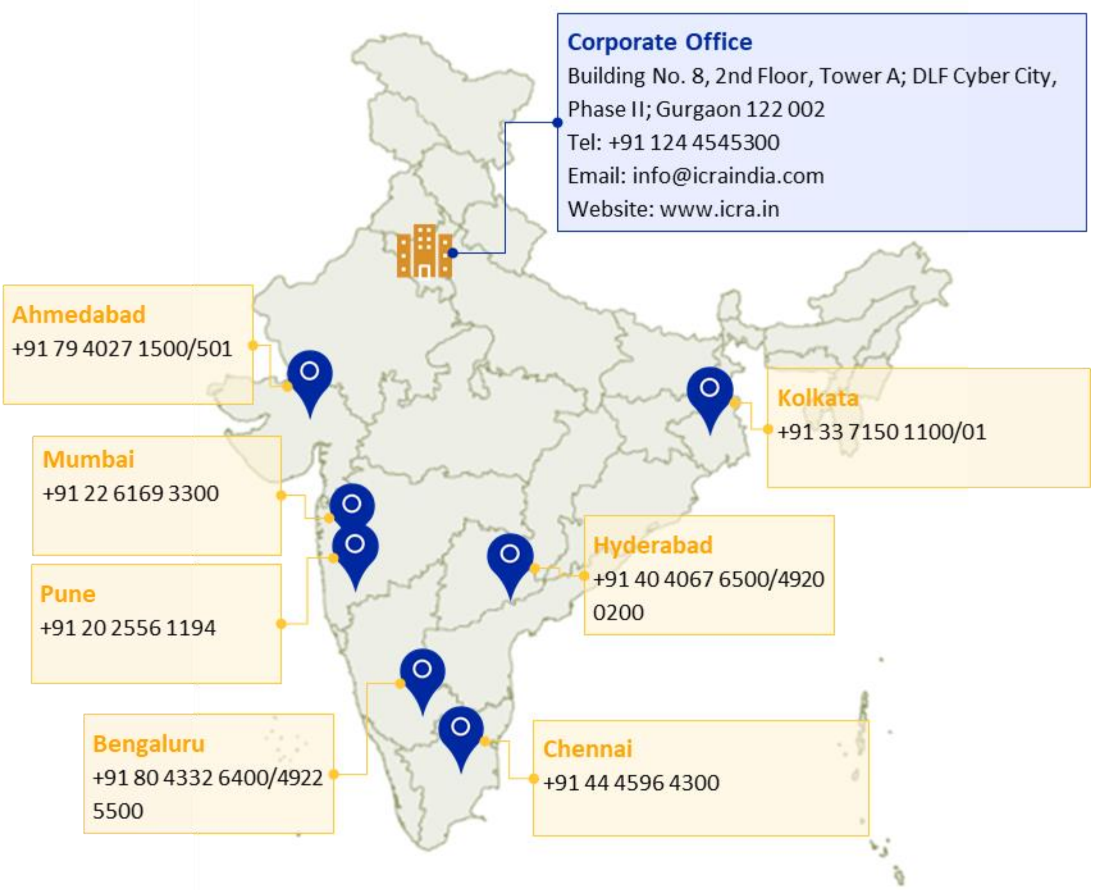

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