February 24, 2023

RMZ Infinity (Chennai) 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	976.00	976.00	[ICRA]A- (Stable) reaffirmed;
Total	**976.00**	**976.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation favourably factors in the progress in leasing and proposed refinancing of outstanding debt for RMZ Infinity Chennai (Private) Limited (RICPL). RICPL's occupancy along with recently tied-up Letter of Intents (LOIs) is around 53% as on February 15, 2023. The company is currently in the process of refinancing the entire outstanding loan along with a top-up loan in Q4 FY2023 which mitigates the near-term refinancing risk. With adequate leasing pipeline and advanced stages of discussion with some of the prospective tenants, the occupancy is expected to further ramp-up in FY2024. The rating continues to factor in the presence of strong promoters, where 50% stake is held each by the RMZ Group and Canada Pension Plan Investment Board (CPPIB), which lends strong financial flexibility. The RMZ Group has a strong execution track record in the real estate space and is one of the leading players in the commercial real estate segment in Bangalore. It has developed over 20 million square feet (msf) of area across several cities. The rating considers the asset's favourable location in Mt Poonamalle Road, near Porur, which is a well-developed suburb situated in the west of Chennai, having adequate social infrastructure and good connectivity with rest of the city.

The rating, however, is constrained by the market risk, given the moderate occupancy levels. Despite the favourable location, the ramp-up in occupancy has been slow since its completion in January 2022 due to factors such as the Omicron, travel restrictions and delay in back-to-office plans by a few occupiers, who were earlier in talks with RICPL to lease large spaces. However, the healthy leasing pipeline mitigates the risk to an extent. Part of the company's debt is in the form of construction finance loan (Rs. 800[1] crore as on January 31, 2023) with a bullet repayment in May 2023 is expected to be refinanced along with a top-up loan during Q4 FY2023; the company is fairly advanced stages of concluding this. The rating is also constrained by the revenue dependence on a single asset and high tenant concentration risk, with the top five tenants contributing to ~80% of the total rent income. With the signing of new leases, the tenant concentration risk is expected to reduce in near term.

The Stable outlook reflects ICRA's expectation that RICPL's credit profile will be supported by the adequate leasing pipeline, attractive location of the property and strong sponsor profile, which enhances its financial flexibility.

Key rating drivers and their description

Credit strengths

Established track record of the promoter group in commercial real estate - RICPL is a 50%:50% special purpose vehicle (SPV) of the RMZ Group and CPPIB Group. The RMZ Group has a strong execution track record in the real estate space and is one of

[1] Out of Rs. 800 crore, Rs. 400 crore CF loan has auto conversion LRD facility depending on leasing status

the leading players in the commercial real estate segment in Bangalore. It has developed over 20 msf of commercial real estate space across Bangalore, Chennai, Hyderabad, Pune 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 groups such as RMZ and CPPIB with a demonstrated track record in commercial real estate development lends strong financial flexibility to RICPL.

Favourable location of project – The company has developed "One Paramount", a commercial office space with a total leasable area of 2.4 msf. Out of this, 0.3 msf was already completed and leased out. It has completed the construction of the remaining 2.1 million sft and received occupancy certificate in January 2022. The property is located on Mount Poonamalle Road, near Porur, which is a well-developed suburb situated in west of Chennai, having adequate social infrastructure and good connectivity with rest of the city.

Healthy leasing progress and expected ramp-up in occupancy– RICPL's occupancy along with recently tied-up LOIs is around 53% as on February 15, 2023 compared to 9% of leasing as of November 2021. With adequate leasing pipeline and advanced stages of discussion with some of the prospective tenants, the occupancy is expected to further ramp-up in FY2024.

Credit challenges

Exposure to market risk – The project is exposed to market risks, given the moderate occupancy levels. Despite the favourable location, the ramp-up in occupancy has been slow since its completion in January 2022 due to factors such as the Omicron travel restrictions and delay in back-to-office plans by few occupiers who were earlier in talks with RICPL to lease large spaces. However, healthy leasing pipeline and RMZ track record of leasing mitigates the risk to an extent.

Susceptible to refinancing risk – Part of the company's debt is in the form of construction finance loan (Rs. 800 crore as on January 31, 2023, wherein Rs. 400 crore CF loan has auto conversion LRD facility depending on leasing status) with a bullet repayment in May 2023, exposing it to refinancing risk. However, RICPL is in the process of refinancing the entire outstanding loan along with a top-up loan in Q4 FY2023; the company is fairly advanced stages of concluding this. Timely leasing of the additional area at remunerative rates will remain critical.

High tenant concentration risk - At present, the top five tenants contribute to ~80% of the total rent income resulting in high tenant concentration. Nonetheless, the rating considers the long lease tenures, strong profile of the major tenants, who are large multi-national companies, as well as the significant fit-out cost incurred by the tenants, which provides comfort on the tenant stickiness. With signing of new leases, the tenant concentration risk is expected to reduce in the near term. The rating also factors in the single asset nature of the special purpose vehicles (SPVs) and the dependence on revenues from a single property.

Liquidity position: Adequate

RICPL's liquidity is expected to remain adequate, with the rent commencement. The company is in process of refinancing the outstanding loan with a top-up loan in Q4 FY2023. Further, the company had free cash and bank balance of Rs. 32.0 crore and DSRA of Rs. 23 crore as on December 31, 2022.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a significant increase in occupancy and mitigation of refinance risk associated with the outstanding loans resulting in improvement in debt coverage metrics on a sustained basis. Specific credit metrics that could lead to a rating upgrade include five-year average DSCR greater than 1.3 times on a sustained basis.

Negative factors – The rating may be downgraded if there are substantial delays in new lease tie-ups and rent commencement, which increase the refinance risk, or if there is significant increase in indebtedness than expected.

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

RMZ Infinity (Chennai) Limited (RICPL) owns land of 14 acres on which it has developed an office park named 'One Paramount' in Mt Poonamalle Road, Porur, Chennai with a total leasable area of 2.4 msf. At present, the construction of the project has been completed, and the company received OC in January 2022.

As on March 31, 2022, 50% of RICPL's share is held by Millennia Realtors Private Limited, the ultimate holding company of the RMZ Group. The remaining shares of RICPL are held by CPP Investment Board Private Holdings (4) In[2].

Key financial indicators (audited)

RICPL	FY2021	FY2022
Operating income	24.4	23.2
PAT	-66.8	-11.6
OPBDIT/OI	-93.3%	15.3%
PAT/OI	-273.5%	-49.8%
Total outside liabilities/Tangible net worth (times)	- 6.5	35.3
Total debt/OPBDIT (times)	-43.6	300.5
Interest coverage (times)	-0.5	0.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Source: Company, 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 for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of June 30, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 24, 2023	Nov 03, 2021	Oct 09, 2020	Aug 30, 2019
1	Term loans	Long term	976.0	949.0	[ICRA]A- (Stable)	[ICRA]A- (Stable) assigned; [ICRA]A (CE)& withdrawn	[ICRA]A (CE)&	[ICRA]A (SO) (Negative)

&=Under watch with developing implications

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[2] is a part of Canada Pension Plan Investment Board (CPPIB)

Complexity level of the rated instruments

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Term Loan-I**	FY2019-FY2020	NA	Oct 2032	176.0	[ICRA]A-(Stable)
-	**Term Loan-II**	FY2019-FY2022	NA	May 2023	800.0	[ICRA]A-(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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