

July 28, 2023

RMZ Construction (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	650.0	650.0	[ICRA]BBB+ (Stable) reaffirmed;
Total	650.0	650.0	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for RMZ Construction (India) Private Limited factors 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 has a demonstrated track record of timely completion of large-sized projects with healthy occupancy levels across its properties. It is one of the leading players in the commercial real estate segment in Bangalore and has developed over 20 million square feet (msf) of area across several cities and leased the same to marquee clients. The rating takes into account the favourable location at Hitec City, Hyderabad, which enhances the marketability and is expected to translate into adequate pre-leasing tie-ups by the completion of the project. The rating also notes the low funding risk of the project, given the sanction of construction finance (CF) loan of Rs. 650.0 crore and the entire equity has already been infused by the promoter groups.

The rating, however, is constrained by the significant market risk with nil pre-leasing as on date. Nevertheless, the company is in discussions with the prospective tenants and expects to achieve adequate leasing before the project is completed. The rating is also constrained by the moderate execution risk of the project, wherein it is yet to incur around 28% of the total construction cost as of June 2023. Notwithstanding the Group's track record in execution and leasing, any significant delay in project handover or leasing could adversely impact its cash flow and ability to refinance the construction loan outstanding. The comfortable moratorium on the rated debt facility till April 2025, compared to the date of commencement of commercial operations (DCCO) date of April 2024, partly mitigates the risks arising due to any delay in the development or leasing of the project. Nonetheless, ICRA notes that the project's micro market witnesses the highest absorption of office space in the city.

The Stable outlook reflects ICRA's opinion that the company would benefit from the location-specific advantage of the project and operational track record of the promoter group.

Key rating drivers and their description

Credit strengths

Established track record of promoter groups in commercial real estate - RCIPL 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 has a demonstrated track record of timely completion of large-sized projects with high occupancy levels across its properties. Further, the Group is one of 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, Kolkata and Gurgaon and leased the same to marquee clients. The strong promoter groups such as RMZ and CPPIB with a demonstrated track record in commercial real estate development lends healthy financial flexibility to RCIPL.

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 area is characterised by good infrastructure and has been a preferred micro market for multinational companies taking up space in and around Hyderabad. The favourable location of the project enhances the marketability and is expected to translate into adequate pre-leasing tie-ups till the completion of the project. The Group has a demonstrated track record of timely completion of large-sized projects with healthy occupancy levels across its properties.

Low funding risks - The RMZ Spire project has a total cost of Rs. 960 crore, which is to be funded by Rs. 650 crore of debt and the remaining through equity. The project has a low funding risk with CF loan of Rs. 650.0 crore in place. Further, the entire equity has already been infused by the promoter groups.

Credit challenges

Moderate execution risk - The RMZ Spire project involves the development of 1.7 msf of leasable office space (RCIPL share of 1.0 msf) in Hitec City, Hyderabad. The construction started in FY2019 and is expected to be concluded by FY2024. The company incurred around 72% of the total construction cost as of June 2023 resulting in moderate execution risks. ICRA, however, notes that the CF loan is in place and majority of the equity has been already infused by the promoter group.

Significant market risk - The project is exposed to significant market risk with nil pre-leasing as on date. 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. Nonetheless, ICRA notes that the project’s micro market witnesses the highest absorption of office space in the city.

Exposure to refinancing risk - Any delay in the construction or lower-than-expected leasing levels could adversely impact its cash flow position and its ability to refinance the outstanding term loan. With comfortable moratorium till April 2025 against the targeted completion date of April 2024, the risk is mitigated to an extent.

Liquidity position: Adequate

The company’s liquidity position is adequate, supported by adequate undrawn CF loan of Rs. 275.0 crore as of June 2023 against the pending construction cost of Rs. 186 crore.

Rating sensitivities

Positive factors - Healthy leasing progress while maintaining comfortable leverage thereby reducing the refinancing risk could lead to an upgrade.

Negative factors - Downward pressure on the rating could emerge if there is any significant delay in completion or inadequate leasing or lower rental rates of the office space impacting the company’s ability to refinance the outstanding CF loan.

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 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 msf 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 msf (60%). It is a 50:50 joint venture between RMZ 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 end of FY2024.

Key financial indicators

Not applicable being a project-stage company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
1	Term loans	650.0	335.3	July 28, 2023 [ICRA]BBB+ (Stable)	May 12, 2022 [ICRA]BBB+ (Stable)	-	-

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
NA	Term loan-I	June 2021	NA	Apr-2025	500.0	[ICRA]BBB+ (Stable)
NA	Term loan-II	June 2021	NA	Apr-2025	150.0	[ICRA]BBB+ (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not applicable

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