August 04, 2023

Arliga Ecoworld Infrastructure Private Limited (erstwhile known as RMZ Ecoworld Infrastructure Private Limited): Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	6,910.52	6,910.52	[ICRA]A- (Stable); reaffirmed
Total	**6,910.52**	**6,910.52**	

**Instrument details are provided in Annexure I*

Rationale

For arriving at the rating, ICRA has considered the consolidated financials of Arliga Ecoworld Infrastructure Private Limited (AEIPL) and its subsidiary Arliga Azure Projects Private Limited (AAPPL), along with Arliga Northstar Projects Private Limited (ANSPPL), given the close business and financial linkages among them. The assets and cash flows of AAPPL and ANSPPL are part of the security package for the debt availed in AEIPL.

The rating reaffirmation for AEIPL factors in the high occupancy of 89% as of May 2023, which is expected to further improve by the end of FY2024, backed by a healthy leasing pipeline. AEIPL has a strong portfolio of completed commercial office assets having 12.8 million square feet (msf) of leasable area with long-term lease agreements and a good track record of tenant stickiness, owing to competitive rentals in most of the assets. The rating considers the favourable location of the assets across Bangalore, Chennai and Pune, which are either close to the Central Business District (CBD) or in the IT/ITES corridor. The rating notes the track record of sponsors, which are funds managed by Brookfield Asset Management (BAM) and continues to derive comfort from the strong financial flexibility being a part of the Brookfield Group. BAM is one of the largest real estate investment managers globally and has an established track record with a listed Real Estate Investment Trust (REIT) in India.

The rating, however, remains constrained by the high leverage levels for the portfolio resulting in modest debt coverage metrics. There has been a track record of sponsors infusing funds in the special purpose vehicle (SPV) to meet any cash flow mismatches. On a consolidated basis, AEIPL has adequate liquidity with free cash balances of Rs. 158.0 crore and debt service reserve worth around Rs. 248 crore as of March 2023. It remains exposed to vacancy risks associated with the leased portfolio and exposure to interest rate risk, which may result in weakening of debt coverage metrics. However, the risks are partially mitigated by the established operational track record of the assets, a strong tenant profile and competitive rentals. The company is exposed to cyclicality associated with the commercial real estate sector and vulnerability to external factors.

The Stable outlook on the rating reflects ICRA's belief that the company will benefit from the strong operational profile of the assets, along with the financial flexibility associated with the sponsor group.

Key rating drivers and their description

Credit strengths

Diversified asset base with healthy occupancy - The portfolio of 12.8 msf of completed area has healthy occupancy of 89% as of May 2023, supported by long-term lease agreements and a good track record of tenant stickiness owing to competitive rentals in most of the assets. The consolidated portfolio includes business parks located in Bengaluru, Chennai and Pune having a strong and diversified tenant profile with leading multinationals and corporates. The assets are favourably located close to the CBD or in the IT/ITES corridor. The top five tenants generate around 22% of the total gross rentals. Some of the reputed tenants in the portfolio are Honeywell, HSBC, Intel, KPMG, Morgan Stanley, SAP Labs, Shell, Standard Chartered, and State Street, among others.

Strong sponsor group with established track record provides financial flexibility - BAM is one of the largest real estate investment managers globally and has an established track record with a listed REIT in India. BAM has strong financial flexibility, which will support the asset SPVs in case of any refinancing/liquidity requirement. Additionally, AEIPL has a committed line of equity of Rs. 150 crore available, which can be used for any shortfall in debt obligations and upgradation capex in the near term.

Credit challenges

High leverage and modest coverage indicators - The leverage for the portfolio remained elevated at debt to NOI of 10.6 times as of March 2023 resulting in modest debt coverage metrics. The sponsors have been infusing funds for maintaining adequate liquidity in the SPVs and meet the cash flow mismatches. On a consolidated basis, AEIPL has adequate liquidity with free cash balances of Rs. 158.0 crore and debt service reserve worth around Rs. 248 crore as of March 2023. This along with the expected improvement in occupancy levels and rentals will support the leverage and coverage indicators going forward.

Exposure to lease vacancy risks - AEIPL remains exposed to vacancy risks associated with the leased portfolio and exposure to interest rate risk, which may result in weakening of debt coverage metrics. Nonetheless, ICRA takes comfort from the high occupancy in AEIPL's portfolio, established operational track record of the assets with a strong tenant profile and competitive rentals. The company also remains exposed to the inherent cyclicality in the real estate industry and vulnerability to external factors.

Liquidity position: Adequate

AEIPL's liquidity at a consolidated level is expected to remain adequate, supported by the stable rental income from the underlying assets and free cash balances of Rs. 158.0 crore as of March 2023. In addition, it has a debt service reserve of Rs. 248 crore as of March 2023.The company has a debt servicing obligation of around Rs. 234 crore in FY2024, which can be met through its estimated cash flow from operations and unencumbered liquidity.

Rating sensitivities

Positive factors - The rating can be upgraded in case of leasing of vacant area, improvement in average rental rates or a significant reduction in leverage, thereby resulting in an improvement in coverage ratios on a sustained basis. Specific triggers for an upgrade include average five-year DSCR being higher than 1.25 times and Debt/NOI of less than 7.0 times on a sustained basis.

Negative factors - The rating could be downgraded in case of material decline in occupancy resulting in weakening of debt coverage metrics and liquidity position on a sustained basis. Specific metrics include a decline in occupancy below 85% 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	For arriving at the ratings, ICRA has considered the consolidated financials of AEIPL and its subsidiary Arliga Azure Projects Private Limited (AAPPL) along with Arliga Northstar Projects Private Limited (ANSPPL) given the close business and financial linkages among them. Assets and cash flows of AAPPL and ANSPPL are part of the security package for the debt availed in AEIPL.

About the company

Arliga Ecoworld Infrastructure Private Limited (AEIPL), is wholly owned by a BAM managed fund (BSREP III New York FDI I (DIFC)), with AAPPL as its 100% subsidiary. ANSPPL continues to be held by BSREP III New York II (DIFC). The consolidated asset profile of AEIPL, AAPPL and ANSPPL has a portfolio of 12.8 msf of commercial office spaces across Bangalore, Chennai and Pune having 89% occupancy as of May 2023. The portfolio includes business parks such as Ecospace, Ecoworld, Centennial, NXT, Azure, RMBP I and RMBP II, Icon, Azure and Northstar across the three cities. The tenant profile in the portfolio remains strong and diversified with leading multinational and Indian corporates such as Honeywell, HSBC, Intel, KPMG, Morgan Stanley, SAP Labs, Shell, Standard Chartered, and State Street, among others. BSREP III New York FDI I (DIFC) and BSREP III New York II (DIFC) are a part of BAM, which is one of the largest real estate investment managers globally and has an established track record in India.

Key financial indicators

Consolidated Financials of AEIPL, AAPPL and ANSPPL	FY2022	FY2023
Particulars	**Audited**	**Provisional**
Operating income (in Rs. crore)	1254.2	1320.1
PAT (in Rs. crore)	-585.0	-459.1
OPBDIT/OI	71.8%	69.1%
PAT/OI	-46.6%	-34.8%
Total outside liabilities/Tangible net worth (times)	-2.4	-2.2
Total debt/OPBDIT (times)	14.8	15.2
Interest coverage (times)	0.7	0.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

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 (FY2024)				Chronology of rating history for the past 3 years				
		Type	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
					August 04, 2023	Jun 14, 2022	October 29, 2021	October 01, 2021	Apr 6, 2021	Oct 9, 2020
1	Term loans	Long term	6,910.52	6,910.52	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A&
2	NCD	Long term	-	-		-		[ICRA]A- (Stable); Withdrawn	[ICRA]A- (Stable)	[ICRA]A&

&= Under Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loans	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 loans**	FY2017-FY2023*	-	FY2036 @	6910.52	[ICRA]A-(Stable)

Source: Company; ICRA Research

** Represents loans sanctioned between FY2017 and FY2023; @ Represents the farthest maturity date among the various maturity dates for different term loans*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Arliga Ecoworld Infrastructure Private Limited (AEIPL)	Parent	Full consolidation
Arliga Azure Projects Private Limited (AAPPL)	Subsidiary (100.00%)	Full consolidation
Arliga Northstar Projects Private Limited (ANSPPL)	Common Sponsor; part of the security package for the rated instrument	Full consolidation

Source: Company; ICRA Research

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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