September 19, 2023

RGA Software Systems 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	194.21	30.00	[ICRA]A+ (Stable); reaffirmed
Long-term – Unallocated	486.63	200.00	[ICRA]A+ (Stable); reaffirmed
Total	**680.84**	**230.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for RGA Software Systems Private Limited (RGA) factors in the significant reduction in debt levels and the consequent strong leverage and debt coverage metrics in FY2023, which are expected to sustain in the medium term. RGA's total debt declined to Rs. 48.8 crore as of March 2023 from Rs. 222.4 crore as of March 2022 with the company prepaying its debt, aided by stable rental inflows from its office properties and recovery of interest and capital from its investee group entities. This resulted in strong leverage and debt coverage indicators for the company, with Debt/Net Operating Income (NOI) of 0.3 times as of March 2023 (PY: 1.3 times) and DSCR of 2.2 times in FY2023-FY2024. The occupancy of the portfolio has increased to 78% as of August 2023 from 73% as of May 2022 and is likely to further ramp-up by the end of FY2024, backed by the healthy leasing pipeline. The rating positively factors in the established operating profile of RGA's assets, including their favourable location and reputed tenant base, and extensive experience of the promoters in the commercial real estate sector.

The rating is, however, constrained by the absence of liquidity support in the form of debt service reserve account (DSRA), which can provide support in case of any short-term cash flow mismatches. ICRA, however, draws comfort from RGA's healthy financial flexibility arising from the low leverage as well as undrawn overdraft limits. The rating considers the moderate customer concentration risk with the top five customers occupying around 54% of the total developed space. The debt coverage ratios remain susceptible to changes in interest rates and reduction in occupancy levels.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that RGA will continue to benefit from strong leverage, adequate occupancy levels and reputed tenant profile.

Key rating drivers and their description

Credit strengths

Established operating profile with favourable location and reputed tenant base – The company owns four properties in Electronic City (Surya - I, II, III and IV, together admeasuring 0.84 msf) and two properties in Bellandur, Outer Ring Road (Pritech - I and II, together admeasuring 2.77 msf). Both the locations are prominent IT corridors of Bangalore. The projects have an established operational profile with reputed tenant base like Accenture, HP Global Soft, Genpact, NDS, Intuit, etc. Further, RGA is one of the reputed real estate developers in the commercial real estate segment in Bangalore, with a strong operating portfolio of commercial assets. The occupancy of the portfolio increased to 78% as of August 2023 from 73% as of May 2022 and is expected to further ramp-up by the end of FY2024, backed by a healthy leasing pipeline.

Strong financial flexibility arising from low leverage – There has been a sustained reduction in RGA's debt over the past few fiscals on the back of prepayment of debt from surplus cash flow, with total debt declining to Rs. 48.8 crore as on March 31, 2023, from Rs. 1,005 crore as on March 31, 2018. RGA's leverage is comfortable with Debt/OPBITDA of 0.3 times as of March 2023 (PY: 1.3 times). Consequently, the debt coverage metrics remain strong. In addition, RGA derives financial flexibility from its investments in group entities, which have unencumbered cash flows. It also receives interest income from the group entities.

Credit challenges

Moderate customer concentration risk – RGA is exposed to moderate customer concentration risk with top five customers occupying about 54% of the total area as of August 2023. Any sustained reduction in occupancy due to vacancy in space occupied by these tenants can impact its debt coverage metrics. Nonetheless, comfort can be drawn from the reputed tenant profile and long-term lease agreements, which mitigates the vacancy risk to an extent.

Lack of DSRA and vulnerability of debt coverage ratios to changes in interest rate and occupancy levels – There is no DSRA lien marked to the company's lenders, which can provide support in case of any short-term cash flow mismatches arising from any vacancy. Nonetheless, the strong debt coverage metrics and access to undrawn overdraft limits partly mitigate the risk. The debt coverage ratios remain susceptible to changes in interest rates and reduction in occupancy levels.

Liquidity position: Strong

The company's liquidity position is strong with unencumbered cash and bank balance of Rs. 14.5 crore as on March 31, 2023, and an average cushion of Rs. 30 crore in the form of undrawn OD limits. It is expected to repay its outstanding debt fully in FY2024 through the estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade RGA's rating if it demonstrates significant improvement in its operational risk profile through growth in scale of operations and diversification of the project portfolio.

Negative factors – Negative pressure on RGA's rating could emerge if there is any material decline in the occupancy or significant increase in indebtedness or investments in group companies adversely impacting the debt protection metrics and liquidity position. Specific credit metric that could lead to a rating downgrade includes 5-year average DSCR falling below 2.0 times 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	Standalone

About the company

RGA Software Systems Private Limited (RGA), established in 2000, primarily develops office space in Bangalore. The company has completed four projects in Electronic City (Surya- I, II, III and IV) and two projects in Bellandur, Outer Ring Road (Pritech-I and II), together admeasuring 3.56 msf. The key tenants in these properties are Accenture, Intuit, Genpact, among others. It has equity investments in three group entities, which have developed commercial real estate projects in Bangalore.

Key financial indicators

RGA (Standalone)	FY2021	FY2022	FY2023
	Audited	Audited	Provisional
Operating income	384.1	356.3	370.1
PAT	188.2	171.9	383.7
OPBDIT/OI	53.6%	49.2%	46.9%
PAT/OI	49.0%	48.2%	103.7%*
Total outside liabilities/Tangible net worth (times)	1.1	0.6	0.2
Total debt/OPBDIT (times)	2.1	1.3	0.3
Interest coverage (times)	4.7	7.0	14.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs. crore
**due to MAT credit adjustment on account of IndAS*
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 June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Sep 19, 2023	Aug 26, 2022	May 25, 2021	
1	**Term loan**	Long term	30.00	42.33	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-
2	**Unallocated**	Long term	200.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term – Unallocated	NA

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**	FY2018-FY2021	-	FY2028-FY2029	30.00	[ICRA]A+ (Stable)
NA	**Unallocated**	NA	NA	NA	200.00	[ICRA]A+ (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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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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