May 22, 2024

Arliga Ecoworld Infrastructure Private Limited (erstwhile known as RMZ Ecoworld Infrastructure Private Limited): Rating upgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	6,910.52	11,000.00	[ICRA]A (Stable); upgraded from [ICRA] A- (Stable) and assigned for enhanced amount
Long-term – Unallocated	0.00	0.52	[ICRA]A (Stable); assigned
Total	**6,910.52**	**11,000.52**	

**Instrument details are provided in Annexure I*

Rationale

To arrive 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 the entities. The assets and cash flows of AAPPL and ANSPPL are a part of the security package for the debt availed in AEIPL.

The rating upgrade for AEIPL factors in the healthy occupancy levels and refinancing of debt in Q4 FY2024 with favourable terms including elongated tenure and lower interest rate resulting in healthy improvement in debt coverage metrics. Its occupancy remained healthy at 89% as of April 2024, similar to May 2023. With healthy leasing pipeline, the occupancy is likely to ramp-up in the near to medium term. With elongation in debt tenure and ballooning repayment structure, the five-year average DSCR (FY2025 – FY2029) is projected to substantially improve to ~1.33-1.34 times, supported by expected ramp-up in occupancy and increase in rental rates.

The rating continues to factor in AEIPL's strong business risk profile comprising large-scale completed commercial office assets covering 12.9 million square feet (msf) of leasable area as of April 2024. It has a vast track record of operations and a diversified tenant profile with leading multi-national and Indian corporates. The rating considers the favourable location of the assets across Bangalore, Chennai and Pune with good connectivity enhancing their marketability. The rating derives comfort from the experience and track record of the Brookfield Group, which is one of the world's largest alternative asset managers.

The rating, however, remains constrained by the elevated leverage levels for the portfolio with Total Debt/NOI estimated at 8.3-8.5 times by March 2025. The debt levels are expected to remain elevated due to top-up loan availed during refinancing, which will be utilised for the planned funded capex of Rs. 400-500 crore during FY2025-FY2026. The rating notes the vulnerability of debt coverage ratios to factors such as changes in interest rate or any material reduction in occupancy levels of the assets. However, the risks are partially mitigated by the established operational track record of the assets, a strong tenant profile and competitive rentals. AEIPL remains exposed to the inherent cyclicality in the real estate industry 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, healthy debt coverage indicators, along with the financial flexibility associated with the sponsor group.

Key rating drivers and their description

Credit strengths

Improvement in debt coverage metrics with favourable refinancing terms and increase in rental rates – AEIPL has refinanced its debt in Q4 FY2024 with an elongated tenure and lower interest rate resulting in healthy improvement in debt coverage metrics. Its occupancy remained healthy at 89% as of April 2024, similar to May 2023. With healthy leasing pipeline, the occupancy is likely to ramp-up in the near to medium term. With elongation in debt tenure and ballooning repayment structure, the five-year average DSCR (FY2025 – FY2029) is projected to substantially improve to ~1.33-1.34 times, supported by expected ramp-up in occupancy and increase in rental rates.

Diversified asset base with healthy occupancy – AEIPL has a strong business risk profile comprising large-scale completed commercial office assets covering 12.9 msf of leasable area as of April 2024. It has a vast track record of operations and diversified tenant profile with leading multi-national and Indian corporates. The rating also considers the favourable location of the assets across Bangalore, Chennai and Pune with good connectivity enhancing their marketability.

Strong sponsor group with established track record provides financial flexibility – The established track record of the Brookfield Group in the real estate sector and the diversified portfolio in commercial real estate business in India provide comfort. The portfolio is likely to benefit from the experienced management team and strong parentage, which provided strong financial flexibility and will support the asset SPVs in case of any liquidity requirements.

Credit challenges

High leverage levels – The leverage of the portfolio remains elevated with total debt to NOI estimated to be at 8.3-8.5 times as of March 2025. The debt levels are expected to remain elevated due to top-up loan availed during refinancing, which will be utilised for planned capex of Rs. 400-500 crore during FY2025-FY2026. The rating notes the vulnerability of debt coverage ratios to factors such as changes in interest rate or material reduction in occupancy levels of the assets. However, the risks are partially mitigated by the established operational track record of the assets, a strong tenant profile and competitive rentals.

Vulnerability of commercial real estate sector to cyclicality – AEIPL remains exposed to the inherent cyclicality in the real estate industry and vulnerability to external factors. Nonetheless, ICRA takes comfort from the healthy occupancy levels of the consolidated assets.

Liquidity position: Adequate

AEIPL’s liquidity at a consolidated level is expected to remain adequate, with free cash balances of Rs. 266.1 crore as on March 31, 2024. In addition, it has a debt service reserve of Rs. 88.2 crore as on March 31, 2024. The company has a debt servicing obligation of around Rs. 68 crore in FY2025 and Rs. 145 crore in FY2026, which can be met through its estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a healthy increase in occupancy and rental rates resulting in improvement in debt protection metrics on a sustained basis. Specific credit metric for an upgrade includes Total Debt/NOI of less than 6.5 times on a sustained basis.

Negative factors – Negative pressure on the rating could emerge if there is a material decline in occupancy or rental rates or significant increase in indebtedness resulting in weakening of leverage and debt coverage metrics. Specific credit metric for a rating downgrade include five-year average DSCR of less than 1.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty- Lease Rental Discounting (LRD)
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, 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 Brookfield Asset Management (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 12.9 msf of commercial office spaces across Bangalore, Chennai and Pune having 89% occupancy as of April 2024. The portfolio includes business parks such as Ecoworld, Ecospace, Centennial, NXT, Azure, RMBP I and RMBP II, Icon, Azure, EW4D and Northstar across the three cities. 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

Consolidated (AEIPL+AAPPL+ANSPPL)	FY2023	9M FY2024
Particulars	**Audited**	**Provisional**
Operating income (in Rs. crore)	1372.1	1100.3
PAT (in Rs. crore)	-499.3	-445.3
OPBDIT/OI	69.2%	67.2%
PAT/OI	-36.4%	-40.5%
Total outside liabilities/Tangible net worth (times)	-2.3	-2.2
Total debt/OPBDIT (times)	14.6	14.65
Interest coverage (times)	0.7	0.7

Source: Company, ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		
					May 22, 2024	August 04, 2023	Jun 14, 2022	October 29, 2021	October 01, 2021	Apr 6, 2021
1	Term loans	Long term	11,000.00	9895.23	[ICRA] A (Stable)	[ICRA] A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	NCD	Long term	-	-	-	-	-	-	[ICRA]A- (Stable); Withdrawn	[ICRA]A- (Stable)
3	Unallocated	Long term	0.52	-	[ICRA] A (Stable)	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long term – Unallocated	Not Applicable

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**	FY2024	NA	FY2039	11,000.00	[ICRA]A (Stable)
NA	**Unallocated**	NA	NA	NA	0.52	[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:

Company Name	Ownership	Consolidation Approach
Arliga Ecoworld Infrastructure Private Limited (AEIPL)	Rated Entity	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

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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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