ICRA

August 02, 2024

RMZ Hotels Private Limited: Rating reaffirmed; 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	1800.00	2,120.00	[ICRA]A- (Stable); reaffirmed/assigned for enhanced amount
Long-term – Unallocated limits	20.00	0.0	-
Total	**1820.00**	**2,120.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for RMZ Hotels Private Limited (RHPL) favourably factors in the healthy ramp up in occupancy levels in Phase 1[1] of the Ecoworld (EW) 30 project to 88% as of July 2024 from 39% as of August 2023, which provides cash flow visibility. Backed by healthy leasing demand, the tower EW31 is fully leased and occupancy of EW32 (including hard option (HO)) stands at 80% as of July 2024. With leasing in EW32, the company is expected to refinance the entire outstanding construction finance (CF) loan (due in October 2025) with a lease rental discounting (LRD) loan over the next three-six months, thereby mitigating the refinancing risk. The rating considers the presence of strong promoters, where 50% stake is held each by the RMZ Group and Mitsui Fudosan, 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 commercial real estate space across several cities. The rating considers the asset's favourable location in Outer Ring Road (ORR), Bengaluru, enhancing the marketability of the project.

The rating, however, is constrained by the moderate execution risk for the under-construction assets (Phase 2 of the project comprising EW30 and EW33 towers of 1.72 msf) as 28% of the total construction cost is yet to be incurred as of March 2024. The same is likely to be completed over the next 12-18 months in a phased manner. The pending project cost for Phase 2 is expected to be largely funded through LRD top-up loans and on balance sheet liquidity/internal accruals. The company is exposed to high market risk for Phase 2 of the project as there is nil pre-leasing till date. However, comfort can be drawn from the strong leasing track record of the RMZ Group and absence of external debt for Phase 2 of the project. The rating is also constrained by the high leverage and moderate coverage metrics as EW32 is yet to stabilise fully and entire debt is concentrated on Phase 1 of the project. The debt protection metrics are likely to improve in the medium term, with the expected rental commencement from Phase 2 assets. The rating notes the vulnerability of its debt coverage metrics to factors such as changes in interest rates or material reduction in occupancy levels.

The Stable outlook on the rating reflects ICRA's expectations that the company will continue to benefit from the healthy occupancy levels in Phase 1 and attractive location of the asset, which enhances the marketability for Phase 2 of the project and expected improvement in debt protection metrics.

[1] *Phase 1 consists of two operational towers – EW 31 (0.7 msf) and EW 32 (1.0 msf)*

Key rating drivers and their description

Credit strengths

Healthy occupancy for Phase 1 of project – The Phase 1 of the EW30 project witnessed healthy ramp up in occupancy levels to 88% as of July 2024 from 39% as of August 2023, which provides cash flow visibility. Backed by healthy leasing demand, the EW31 tower is fully leased and occupancy of EW32 (including HO) stands at 80% as of July 2024. With leasing in EW32, the company is expected to refinance the entire outstanding CF loan (due in October 2025) with an LRD loan over the next three-six months, thereby mitigating the refinancing risk.

Favourable project location – RMZ Ecoworld 30 project is located on ORR, Bengaluru, which has seen a significant growth in demand and absorption of leased office space. The Group has demonstrated healthy performance in the earlier phases of Ecoworld campus. The favourable location will enhance the marketability of the project. ICRA notes that the project's micromarket witnesses the highest absorption of office space in the city and the existing Ecoworld campus operates at high occupancy with a reputed tenant profile.

Strong promoter group with established track record lends financial flexibility – RHPL is a 50%:50% special purpose vehicle (SPV) of the RMZ Group and Mitsui Fudosan Group. The RMZ Group has a strong execution track record and is one of the leading players in the commercial real estate segment in Bengaluru. It has developed over 20 msf of commercial real estate space across several cities. The Group has a long track record of timely completion of large-sized projects with high occupancy levels across its properties. The strong promoter groups and demonstrated track record in commercial real estate development lends healthy financial flexibility to RCEPL.

Credit challenges

Exposure to moderate execution risk in Phase 2 of project – The company is exposed to moderate execution for the under-construction assets (Phase 2 of the project comprising EW30 and EW33 tower of 1.72 msf) as 28% of the total construction cost is yet to be incurred as of March 2024. The same is likely to be completed over the next 12-18 months in a phased manner. The pending project cost for Phase 2 is expected to be largely funded through LRD top-up loans and on balance sheet liquidity/internal accruals.

Exposure to market risk in Phase 2 of project – The company is exposed to high market risk for Phase 2 of the project, as there is nil pre-leasing till date. However, comfort can be drawn from the strong leasing track record of the RMZ Group and absence of external debt for Phase 2 of the project. RHPL has high leverage and moderate coverage metrics as EW32 is yet to stabilise fully and the entire debt is concentrated on Phase 1 of the project. The debt protection metrics are likely to improve in the medium term, with the expected rental commencement from Phase 2 assets.

Vulnerability of debt coverage metrics to external factors – The rating notes the vulnerability of its debt coverage metrics to factors such as changes in interest rates or material reduction in occupancy levels.

Liquidity position: Adequate

RHPL's liquidity is adequate with free cash balances of Rs. 416 crore as on March 31, 2024. The pending project cost of Rs. 600-620 crore as on June 30, 2024 will be funded by undrawn LRD debt against EW31, expected top-up in the proposed LRD loan (against EW32), internal accruals and available liquidity. The company is likely to have debt repayment of Rs. 20.1 crore in FY2025, which can be met comfortably through its estimated cash flow from operations.

Rating sensitivities

Positive factors – RHPL's rating might be upgraded if there is a healthy ramp-up in leasing of under-construction assets at adequate rental rates resulting in improvement in debt protection metrics on a sustained basis.

Negative factors – Downward pressure on the rating could arise if there is inability to achieve the leasing tie-ups at adequate rental rates for the under-construction assets, or if there is a significant increase in indebtedness resulting in moderation of coverage and leverage metrics. Specific metric that can trigger a rating downgrade includes five-year average DSCR of less than 1.15 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	Standalone

About the company

Akarshak Infrastructure Pvt Ltd (AIPL) (now RHPL, post-merger) was a company promoted by the Adarsh Group. It was incorporated on June 27, 2008 to construct, develop and manage a five-star hotel and serviced apartments. Subsequently, the RMZ Group bought 14.2 acres of land at Outer Ring Road, Bangalore, which is a part of the RMZ Ecoworld campus. The RMZ Group purchased the land bank, demolished the partly built hotel structure with the intention to build a commercial office space. RHPL (erstwhile AIPL) started construction of the commercial office project – Ecoworld 30 – in FY2019.

The land for the project, measuring 14.2 acres, is owned by the SPV and civil construction for development of 3.5 msf of commercial office space is in progress at present.

At present, the phase 1 of EW30 project (comprising EW31 and EW32) has been completed and the company received OC of EW31 and EW32 in December 2022 and May 2023 respectively. As on March 31, 2024, 50% of RHPL's share is held by the RMZ Group. The remaining shares of RHPL are held by Mitsui Fudosan (Asia) Pte Ltd.

Key financial indicators (audited)

RHPL	FY2023	FY2024*
Operating income	2.8	63.6
PAT	-29.1	- 60.1
OPBDIT/OI	NM	56.3%
PAT/OI	NM	-94.4%
Total outside liabilities/Tangible net worth (times)	1.9	2.1
Total debt/OPBDIT (times)	-94.2	57.9
Interest coverage (times)	-0.4	0.3

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; * Provisional*

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)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
				Aug 02, 2024	Dec 01, 2023	Nov 15, 2023	Aug 16, 2022	May 17, 2021
1	**Long-term fund-based – Term loans**	Long-term	2120.0	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	**Unallocated limits**	Long-term	0.00	-	[ICRA]A- (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
-	**Term loans - 1**	FY2019	-	FY2026	433.0	[ICRA]A- (Stable)
-	**Term loans - 2**	FY2021	-	FY2026	867.0	[ICRA]A- (Stable)
-	**Term loans - 3**	FY2024	-	FY2039	820.0	[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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