

August 20, 2024

RMZ Construction (India) Private Limited: Rating upgraded to [ICRA]A- (Stable)

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]A- (Stable); Upgraded from [ICRA]BBB+ (Stable)
Total	650.0	650.0	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade for RMZ Construction (India) Private Limited factors in the healthy progress in leasing and receipt of occupancy certificate (OC) for the project in June 2024, leading to an improvement in cash flow visibility. The leasing improved to 86% (including hard option) as of July 2024 compared with 23% as of June 2023. The rentals are expected to start from October/November 2024 as majority of the tenants are in rent-free period. The occupancy, backed by adequate leasing pipeline, is likely to further ramp up in the near term. With the current leasing level, including the hard option, which is expected to be exercised in October 2024, the company is likely to refinance the construction finance (CF) loan with a lease rental discounting (LRD) loan over the next three-six months, thereby mitigating the refinancing risk. Though the leverage is expected to remain high post refinancing of loan with debt/net operating income (NOI) of 8-8.5 times, the debt coverage metrics are expected to remain adequate with five-year average DSCR of 1.20-1.25 times (FY2026 –FY2030). The rating considers the favourable project location at Hitec City, Hyderabad, which enhances the marketability of the project. The rating draws comfort from the 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 is one of the leading players in the commercial real estate segment in Bengaluru. It has developed over 20 million square feet (msf) of commercial real estate space across several cities.

The rating is, however, constrained by the exposure to high tenant concentration risk in the asset, with top five tenants occupying 81% of the total leasable area. Nonetheless, the reputed tenant profile, along with long lease tenures and lock-in period of three-five years mitigate the risk to an extent. The rating factors in the single-asset nature of the company and the dependence on revenues from a single property, exposing it to asset concentration risk. The company remains exposed to the inherent cyclicity in the real estate industry and is susceptible 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.

The Stable outlook on the rating reflects ICRA's opinion that the company would benefit from healthy leasing and attractive location of the asset leading to adequate debt coverage metrics.

Key rating drivers and their description

Credit strengths

Healthy improvement in occupancy levels and adequate debt coverage metrics – The company's leasing improved to 86% (including hard option) as of July 2024 compared to 23% as of June 2023 and received the OC for the project in June 2024. The occupancy, backed by adequate leasing pipeline, is likely to further ramp up in the near term. With the current leasing level, the company is expected to refinance the construction finance (CF) loan with a lease rental discounting (LRD) loan over the next three to six months, thereby mitigating the refinancing risk. Though the leverage is expected to remain high post refinancing of loan with debt/net operating income (NOI) of 8-8.5 times, the debt coverage metrics are expected to remain adequate with five-year average DSCR of 1.20-1.25 times (FY2026 –FY2030).

Favourable asset location – The RMZ Spire project is in Hitec City, Hyderabad, which has seen a significant growth in demand and absorption of leased office spaces. The area is characterised by a 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 its marketability.

Established track record of promoter groups in commercial real estate – RCIPL is a 50:50 special purpose vehicle (SPV) of the RMZ Group and the CPPIB Group, which lends strong financial flexibility. The RMZ Group has a healthy execution track record in the real estate space and is one of the leading players in the commercial real-estate segment in Bengaluru. It has developed over 20 million square feet (msf) of commercial real-estate space across several cities.

Credit challenges

High leverage – The leverage is expected to remain high, post refinancing of loan with debt/NOI of 8-8.5 times for FY2026. Nonetheless, it is expected to improve in the medium term.

High tenant and asset concentration risks – RCIPL is exposed to high tenant concentration risk in the asset, with top five tenants occupying 81% of the total leasable area. Nonetheless, the reputed tenant profile, along with long-lease tenures and lock-in period of three-five years mitigate the risk to an extent. The rating factors in the single-asset nature of the company and the dependence on revenues from a single property, exposing it to asset concentration risk.

Exposure to cyclicity in commercial real estate – The company remains exposed to the inherent cyclicity in the real estate industry and is susceptible to external factors. The rating notes the vulnerability of its debt coverage metrics to changes in interest rates or material reduction in occupancy levels.

Liquidity position: Adequate

RCIPL's liquidity profile is adequate, given the expected stable generation of rental income from the leased area. The rentals are expected to start from October 2024 in a phased manner. Post refinancing of CF loan with LRD loan, the cash flow from operations is expected to remain adequate to meet debt repayment obligations.

Rating sensitivities

Positive factors – The rating could be upgraded if significant increase in occupancy improves the debt protection metrics on a sustained basis. A specific credit metric that could lead to an upgrade is if five-year average DSCR is greater than 1.25 times, on a sustained basis.

Negative factors – Pressure on the rating could emerge if there is any material decline in occupancy or significant increase in indebtedness resulting in deterioration of debt protection metrics, 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

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 1.72 msf of office space in Knowledge City, Hyderabad, on a five-acre land parcel. The project is being developed under a joint development agreement (JDA), wherein RCIPL's share of the ownership in leasable area is 1.05 msf (60%). It is a 50:50 joint venture between the RMZ Group and Canada Pension Plan Investment Board (CPPIB). The company has received the occupancy certificate (OC) for RCIPL's share on June 5, 2024.

Key financial indicators

Not applicable being a project-stage company till FY2024.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Aug 20, 2024	Date	Rating	Date	Rating	Date	Rating
Long term-term loan-fund based	Long Term	650.00	[ICRA]A- (Stable)	28-JUL-2023	[ICRA]BBB+ (Stable)	12-MAY-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]A- (Stable)
NA	Term loan II	June 2021	NA	Apr-2025	150.0	[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

ANALYST CONTACTS

Rajeshwar Burla

+91 40 6939 6443

rajeshwar.burla@icraindia.com

Anupama Reddy

+91 40 6939 6427

anupama.reddy@icraindia.com

Abhishek Lahoti

+91 40 6939 6433

abhishek.lahoti@icraindia.com

Preeti Rana

+91 124 4545 887

preeti.rana@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

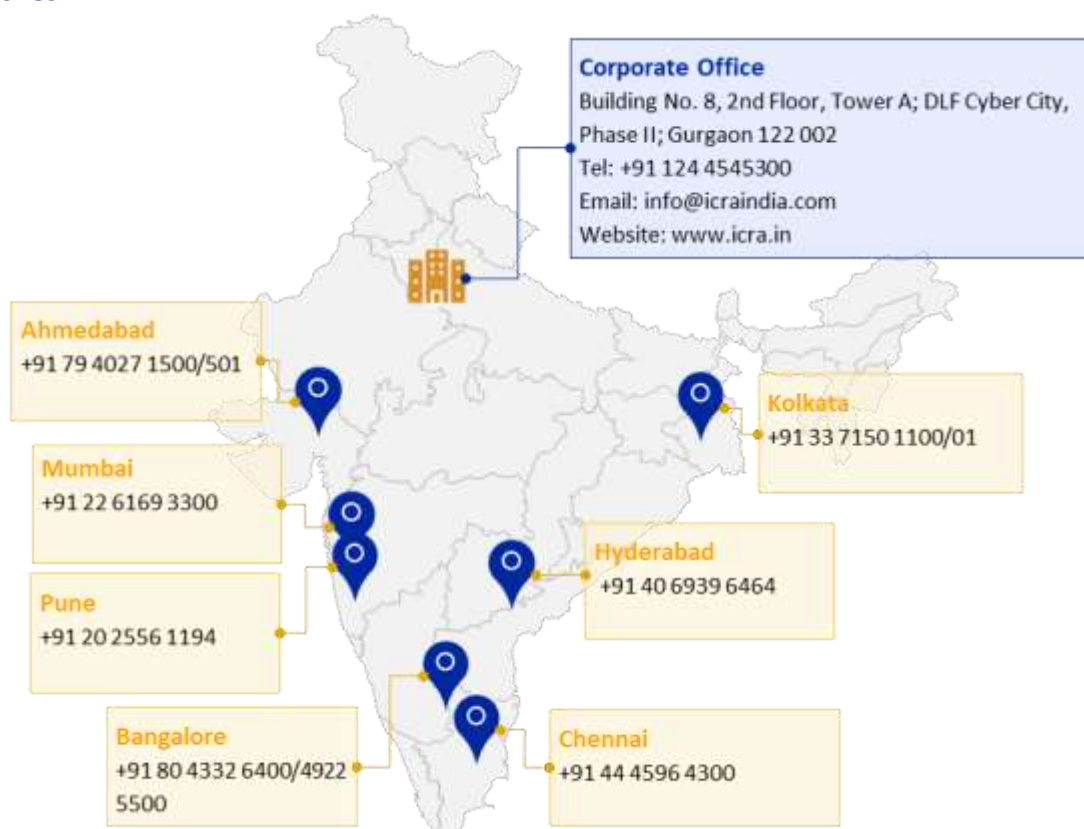


Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.