October 09, 2020

RMZ Ecoworld Infrastructure Private Limited: Rating placed on watch with developing implications

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	3,753.80	3,753.80	[ICRA]A &; rating placed on watch with developing implications
NCD	1428.00	1428.00	[ICRA]A &; rating placed on watch with developing implications
Total	**5,181.80**	**5,181.80**	

*Instrument details are provided in Annexure-1

&- rating watch with developing implications

Rationale

ICRA has placed the rating of the company on watch with developing implications following the conclusion of a binding agreement between RMZ Group and a global investment firm for sale of identified commercial real estate assets owned by RMZ Group to the latter. The transaction documents (shareholders agreement and framework agreement between the parties) are expected to be signed shortly on completion of certain conditions precedent.

The transaction will generate a net equity value of approximately Rs 6,200 crore for the Group which will be used to prepay debt, including the lease rental discounting loans and other general corporate loans. The transaction is likely to result in significant reduction in leverage at the group level. However, the group will continue to have construction finance loans for its under construction and upcoming development.

ICRA is in process in seeking further clarity on the exact contours of the transaction for carrying out a detailed assessment to understand the impact of the acquisition on the company's credit profile and will take a rating action accordingly. ICRA will also monitor the timelines for closure of the transaction as well as proposed debt reduction.

RIPL's collections from operational assets have not seen any material impact of the Covid-19 pandemic till date with close to 100% collections in the current fiscal, excluding income from the food court tenants. Nonetheless, ICRA will continue to evaluate the impact of the pandemic on an ongoing basis, including any impact of the pandemic on occupancy levels and incremental leading in under development projects.

Key rating drivers

Credit strengths

Strong portfolio of completed commercial real estate assets – RIPL currently has a portfolio of 13.9 msf of completed development on a consolidated basis, with an overall occupancy level of more than 98%. The rental income was around Rs 1,054 crore for FY2020. While majority of the completed assets will be transferred on conclusion of the proposed transaction, the debt outstanding against the remaining assets in RIPL will be significantly reduced.

Group's track record in development and leasing – RMZ Group is among the largest commercial real estate developers in the country with presence across major cities such as Bangalore, Chennai, Pune and Gurgaon. It has demonstrated strong project execution, leasing and asset management track record resulting in robust business risk profile.

Liquidity support through DSRA: The debt in RIPL, REIPL and RAPPL are entirely in the form of rental securitisation loans. The rent receivables are paid into escrow accounts charged to the lenders. In addition, majority of the loans carry DSRA covering three to six months of debt servicing due.

Credit challenges

High leverage restricts financial flexibility – The gross lease rental securitisation loans outstanding in RIPL and REIPL as on March 31, 2020 was Rs 8,750 crore. The high debt results in elevated leverage and modest debt coverage metrics. The impact of the increased debt on the coverage metrics is moderated to some extent by the long tenure (14-15 years) of the majority of the loans. However, if the proposed transaction concludes, there will be significant reduction in leverage at the group level.

Execution and market risks related to development portfolio – RIPL has a total development potential of around 8.5 msf, of which 2.5 msf is under active development; hence, the construction risk associated with the development portfolio is significantly high. However, in the long term ICRA expects that the Group's established operational profile will enable timely completion and stabilisation of operations in these assets. Moreover, the pre-leasing pipeline during the construction stage has been strong, which supports future revenue visibility. ICRA will continue to evaluate the impact of the Covid-19 pandemic on the occupancy levels and incremental leading in under development projects.

Liquidity position: Adequate

RIPL and REIPL have comfortable liquidity profile owing to stable and predictable monthly rental collections and adequate coverage ratios on the associated debt. The high tenant diversity and asset quality mitigate the risks of cash flow mismatches due to drop in occupancy levels. The liquidity profile is augmented by the loan specific debt service reserve accounts maintained by the company (three to six months of subsequent instalments) and cash balances totalling to around Rs 405 crore. Since the acquisition debt is also currently supported by surpluses from RIPL and REIPL after meeting their senior debt obligations, conclusion of the proposed transaction remains critical to bring down the debt levels.

Rating sensitivities

Positive triggers – ICRA could revise the outlook to Positive or upgrade the ratings if there is a meaningful reduction in the debt levels of the group, including prepayment of acquisition debt, leading to significant reduction of leverage and an improvement in its credit metrics.

Negative triggers – The ratings may be downgraded if the leverage is not reduced adequately due to delay in the proposed transaction and / or other equity raising. Also, material reduction in occupancy level in the completed portfolio to be retained by the group or significant increase in leverage for the under-construction portfolio could put a pressure on the ratings.

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	RIPL has been consolidated along with three of its subsidiaries – REIPL, RAPPL and RICL. These are the three subsidiaries of RIPL that have completed or under-development projects. Also, limited consolidation has been done with entities viz. Abhishaya Infrastructure Private Limited and RMZ Consultancy Services Private Limited, as there is no ongoing project or debt outstanding in these entities currently, however, RIPL may provide need-based financial support to them.

About the company:

RIPL belongs to the RMZ Group of companies, one of the leading players in the commercial real estate segment in Bangalore. Beginning in 1997, the Group's activities are concentrated on the commercial property (office) segment largely in Bangalore; other locations where the RMZ Group has completed projects include Pune, Kolkata, Chennai and Hyderabad. RIPL is wholly owned by the Menda family through its holding companies, Millennia Realtors Private Limited and RMZ Infotech Pune Private Limited. At present, RIPL has a portfolio of completed commercial office space aggregating to 13.9 msf of which 5.8 msf is owned by RIPL, 7.4 msf by REIPL, and the rest by RICL and RAPPL. RIPL is undertaking development of over 8.5 msf of office space through certain other subsidiaries.

Key financial indicators

	FY2019 (audited)	FY2020 (provisional)
Operating Income (Rs. crore)	1213.1	1295.9
PAT (Rs. crore)	45.6	-124.1
OPBDIT/ OI (%)	67.5%	63.8%
RoCE (%)	3.8%	-9.6%
Total Outside Liabilities/Tangible Net Worth (times)	5.8	8.0
Total Debt/ OPBDIT (times)	9.8	12.2
Interest coverage (times)	1.1	0.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2020 (Rs. crore)	Date & Rating	Date & Rating FY2020		Date & Rating FY2019			
					9-Oct-2020	26-Dec-2019	30-Aug-2019	18-Feb-2019	13-Dec-2018	08-Oct-2018	30-Apr-2018
1	Term loans	Long term	3,753.80	3,654.34	**[ICRA]A &**	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Stable)	Provisional [ICRA]AA-(SO) (Stable)	Provisional [ICRA]AA-(SO) (Stable)
2	NCD	Long term	1428.00	1415.57	**[ICRA]A &**	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Stable)		
3	Unallocated	Long term	-	-			[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Stable)	-	-
4	NCD	Short term	-	-			-		[ICRA]A1+	Provisional [ICRA]A1+(SO)	Provisional [ICRA]A1+(SO)

&- rating watch with developing implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
n.a.	Term loan	FY2017-FY2020*	-	FY3034@	3753.80	[ICRA]A&
INE585I07012	NCD	Dec 2018	9.00%	Nov-23	1,353.00	[ICRA]A&
INE585I07020	NCD	Dec 2019	9.00%	Nov-23	75.00	[ICRA]A&

* Represents loans sanctioned between FY2017 and FY2020

@ Represents the farthest maturity date among the various maturity dates for different term loans

Source: REIPL

&: rating watch with developing implications

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
RMZ Ecoworld Infrastructure Private Limited	100%	Full consolidation
RMZ Azure Projects Private Limited	100%	Full consolidation
RMZ Infinity (Chennai) Limited	100%	Full consolidation
Abhishaya Infrastructure Private Limited	100%	Limited consolidation
RMZ Consultancy Services Private Limited	100%	Limited consolidation

ANALYST CONTACTS

Shubham Jain
+91 124 4545 306
shubhamj@icraindia.com

Mathew Kurian Eranat
+91 80 4332 6415
mathew.eranat@icraindia.com

Ritika Periwal
+91 80 4332 6412
ritika.mundhra@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6169 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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999