

October 09, 2020

RMZ Infinity (Chennai) Limited (RICL): Rating placed on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	976.00	976.00	[ICRA]A(CE) & rating placed on watch with developing implications
Total	976.00	976.00	

*Instrument details are provided in Annexure-1
&- rating watch with developing implications

Rating Without Explicit Credit Enhancement **[ICRA]BBB+**

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The above rating is based on the strength of the corporate guarantee provided by RMZ Infotech Private Limited (RIPL), the holding company of RMZ Infinity (Chennai) Limited (RICL), for the rated term loan programme. The rating watch reflects ICRA's outlook on the rating of the guarantor, RIPL.

Adequacy of credit enhancement

The rating of RICL takes into account the corporate guarantee provided by RIPL to the borrowing programme of RICL. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenure of the rated instrument. Given these attributes, the guarantee provided by PEPL is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]A(CE)** against the rating of **[ICRA]BBB+** without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

- Cash flow cover of be minimum 1.1x during the tenor of the LRD loan
- FACR: Minimum security cover of 150% to be maintained. Additional collateral facility to be provided by the borrower for any shortfall in the security coverage below 1.5x.
- The borrower undertakes not to sell any area of the property without prior approval from lenders of the facility
- Corporate Guarantee to be valid for the entire tenor of the CF and LRD facilities.
- The disbursement for the CF loan to be done in a debt equity ratio of 2.07:1
- The borrower shall implement the project within a total cost of Rs. 1,186.70 crore

Key rating drivers and their description

Credit strengths

Corporate guarantee provided by RIPL towards the rated bank facilities of RICL – The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by RIPL. The rated instrument does not involve a structured payment mechanism.

Favourable location of project – The company owns land of 14 acres on which it proposes to develop a total of 2.25 million square feet (mn sqft). Out of this, 0.3 mn sqft is already completed and leased out. The balance area is currently under construction. The building is located on Mount Poonamalle Road, near Porur in Chennai. It is a prime area for commercial office space.

Established track record of the promoter in the commercial real estate sector - 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. RIPL currently has a portfolio of 13.9 mn sqft of completed development on a consolidated basis.

Credit challenges

High execution and market risk - The under-construction phase involves development of 1.95 mn sqft of leasable space. Around 54% of the development cost has been incurred and the construction is expected to be concluded over the next two years, exposing the company to execution related risks. Also, the market risks remain high given the low pre-leasing tie-ups. Notwithstanding the group's track record and low vacancy levels in the project's micro-market, the company is exposed to risks arising due to any decline in demand trends.

Refinancing risk - The rated construction loan availed for the project has a bullet repayment by May 2022 out of the proceeds from the lease rental discounting (LRD) loan to be availed against the rental income.

Vulnerability of debt coverage ratios to changes in interest rate and occupancy levels - The debt coverage ratios are highly linked to changes in interest rates and reduction in occupancy levels. Any increase in interest rate or decline in occupancy levels might put pressure on the debt coverage metrics.

Liquidity position: Adequate

The liquidity position of the company is expected to be driven by the liquidity profile of the guarantor. In addition, on a standalone level, there is no funding gap envisaged in the completed phase as the LRD loan can be adequately serviced by the rental income from the property. There is a 2-month DSRA which provides additional liquidity cushion. For the under-development phase, the balance construction cost is expected to be funded through the construction finance tied up.

Rating sensitivities

The rating assigned to the borrowing facilities of RICL would remain sensitive to any movement in the rating or outlook of the guarantor, RIPL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	The rating assigned to RICL factors in the high likelihood of its parent, RIPL (rated [ICRA]A; on watch with developing implications, extending financial support to it because of close business linkages between them. Moreover, RIPL has provided corporate guarantee to the borrowing programme of RICL.
Consolidation/Standalone	ICRA has evaluated the standalone operational and financial profile of RICL. In addition, the rating derives strength from the corporate guarantee provided by RIPL for the borrowings of RICL.

About the company

RMZ Infinity (Chennai) Limited (RICL) was incorporated in 1984 as W S Electric Limited. The company owned land and factories in Porur, Chennai. A portion of the land was being developed as an office park through joint development agreement with the TCG group. In 2017, RMZ Group took over the office park project by acquiring the entire shareholding of the companies which were jointly developing the project – namely WS Electric, Softech Ecoworld Private Limited and RMZ Software Parks Private Limited. The name of the company was changed to RMZ Infinity Chennai Limited with effect from February 2017. Subsequently, the three companies were amalgamated through a scheme of arrangement approved by the NCLT in September 2018.

The company owns land of 14 acres on which it proposes to develop a total of 2.25 million square feet (mn sqft). Out of this, 0.3 mn sqft is already completed and leased out. The balance area is currently under construction. The project is located on Mount Poonamalle Road, near Porur in Chennai and is now named as RMZ One Paramount, Chennai.

About the guarantor

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 mn sqft of which 5.8 mn sqft is owned by RIPL, 7.4 mn sqft by REIPL, and the rest by RICL and RAPPL. RIPL is undertaking development of over 8.5 mn sqft of office space through certain other subsidiaries.

Key financial indicators

	FY2019 (audited)	FY2020 (provisional)
Operating Income (Rs. crore)	18.4	28.1
PAT (Rs. crore)	-6.0	-0.1
OPBDIT/OI (%)	30.5%	1.2%
PAT/OI (%)	-32.4%	-0.4%
Total Outside Liabilities/Tangible Net Worth (times)	-6.2	-6.6
Total Debt/OPBDIT (times)	130.6	2544.0
Interest coverage (times)	0.5	0.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as of March 2020	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
				9-Oct-20	30-Aug-19	26-Feb-19	
Term Loan	Long Term	976.00	773.70	[ICRA]A(CE) &	[ICRA]A (SO) (Negative)	[ICRA]A (SO) (Stable)	-

&- 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
NA	Term Loan	September 2018	-	May-2022 / Dec-2033	976.00	[ICRA]A (CE)&

Source: company

&: rating watch with developing implications

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Analyst Contacts

Shubham Jain

+91 124 4545306

shubhamj@icraindia.com

Mathew Kurian Eranat

+91 80 4332 6415

mathew.eranat@icraindia.com

Ritika Periwal

+91 80 4332 6412

iritika.mundhra@icraindia.com

Relationship Contact

L. Shivakumar

+91 22 6169 3300

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

© Copyright, 2020 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