

December 15, 2020

M S Ramaiah Developers And Builders Pvt Ltd: Ratings of [ICRA]BBB+ / [ICRA]BBB (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term LRD Term Loans	408.00	[ICRA]BBB+ (Stable); assigned
Long-term Term Loans	122.00	[ICRA]BBB (Stable); assigned
Total	530.00	

*Instrument details are provided in Annexure-1

Rationale

The rating assigned to the lease rental discounting (LRD) facilities is one notch higher than that of the other term loans as the former's cash flow visibility through long-term leases and the ringfencing structure prevent co-mingling with other cash flow streams.

The ratings consider the strong business profile of the commercial office assets owned by M S Ramaiah Developers and Builders Pvt Ltd (MSRDB) along with its subsidiary Ramaiah Soft Tech Park (RSTP, jointly referred to as the Group). Together, the two entities own 9.2 lakh sq. ft. leasable area in the Helios Business Park (developed through a joint development agreement (JDA) with Kalyani Tech Park Private Limited) located on the Outer Ring Road at Kadubeesanahalli in Bengaluru. The space is fully leased to tenants including Goldman Sachs and Sandisk. The leases have long tenures and lock-in clauses, which support revenue visibility over the long term. MSRDB is developing another commercial office park, MSR Pacman, with 2.6 lakh sq. ft. leasable area (company's share) on Outer Ring Road at Nagawara in Bengaluru. MSRDB will also receive its share of 4.5 lakh sq. ft. of leasable area in Wing E of Helios Business Park, which is expected to be completed by March 2021. Timely leasing of the two under-development assets will significantly increase the company's free cash flows, especially since the Group's share of area in Wing E is unencumbered. The rental collections in the office park has been resilient even during the COVID-19 pandemic induced lockdown. The ratings also take into account the profile of the promoters, who have significant land holdings and interests in various real estate developments in commercial and residential space.

The ratings are, however, constrained by the market risk related to the two under-development assets, MSR Pacman and Wing E of Helios Business Park, which will be ready for occupancy in the next 6-12 months. The timely completion and leasing of the projects are essential for the timely repayment of the availed construction finance loan. Nonetheless, the dependence on incremental leasing is lowered by the debt-free nature of MSRDB's share in Helios Wing E. The ratings are also constrained by modest debt coverage metrics in the near term. Nonetheless, ICRA notes that the LRD debt availed by the Group has an equated monthly instalments (EMI) structure. Moreover, the rental income will grow at 15% every three years, which will improve the debt coverage metrics. Additionally, the debt coverage metrics are expected to improve with the completion and leasing of the entire area under development. The ratings also take into consideration the high tenant concentration, with the largest tenant (Goldman Sachs) occupying 80% of the total available space. Nonetheless, ICRA takes comfort from the strong counterparty profile and the long lock-in period of 10 years (expiring in FY2029).

The Stable outlook reflects ICRA's expectation that the favourable asset profile and the long-term leases with reputed tenants will support the operational and financial profile of the Group.

Key rating drivers and their description

Credit strengths

Favourable asset profile with 100% occupancy in completed developments: The Group entities own leasable area measuring 9.2 lakh sq. ft. in the Helios Business Park (jointly developed with Kalyani Tech Park Private Limited through a JDA) located on the Outer Ring Road at Kadubeesanahalli in Bengaluru. The space is fully leased to tenants including Goldman Sachs and Sandisk. The leases have long tenures and lock-in clauses, which support revenue visibility over the long term. Goldman Sachs occupies built-to-suit office space at a competitive rental rate, which reduces vacancy risk.

Commercialisation of under development buildings to reduce leverage: MSRDB is developing a commercial office park, MSR Pacman, with 2.6 lakh sq. ft. leasable area (company's share) on Outer Ring Road at Nagawara in Bengaluru. MSRDB will also receive its share of 4.5 lakh sq. ft. of leasable area in Wing E of Helios Business Park, which is expected to be completed by March 2021. Timely leasing of the two under-development assets will significantly increase the company's free cash flows and reduce the leverage, especially since the Group's share of area in Wing E is unencumbered.

Track record of promoters: The promoter of the Group, Mr. M R Seetharam, has interests in the real estate and the education sectors. Mr M R Seetharam has multiple land banks in Bengaluru, which are in various stages of development. He also serves as the vice chairman and trustee in Gokula Education Foundation and advisor in Gokula Education Foundation (Medical) which operate various educational institutions.

Credit challenges

Market risks for projects under development: MSRDB is exposed to execution and market risk in its share of space in MSR Pacman and Wing E of Helios Business Park. Timely completion and leasing of the projects are essential for the timely repayment of the availed construction finance loan. The market risks are partly mitigated by the favourable locations of the projects on the Outer Ring Road of Bengaluru. Moreover, the dependence on incremental leasing is lowered by the debt-free nature of MSRDB's share in Helios Wing E.

High tenant concentration: The Group has a moderate scale of operations, with Helios Business Park being the only operational asset as on date. The Group is also exposed to tenant concentration risk with the largest tenant (Goldman Sachs) occupying 80% of the available area. Nonetheless, ICRA takes comfort from the reputed profile of the tenant and the long lock-in period of 10 years (expiring in FY2029). The additional development undertaken by MSRDB is expected to reduce the tenant concentration going forward.

Modest debt coverage metrics in near term: The debt coverage metrics is expected to remain modest in the near term. Nonetheless, ICRA notes that the LRD debt availed by the Group has an EMI structure. Additionally, the rental income is expected to escalate at 15% every three years, which will improve the debt coverage metrics going forward. Moreover, the debt coverage metrics are expected to improve with the completion and leasing of the area under development in MSR Pacman and Helios Wing E.

Liquidity position: Adequate

The company had free cash and bank balances of around Rs 1 crore as well as undrawn LRD sanction of Rs 13 crore as on November 2020. The company has also maintained fixed deposits earmarked towards property tax and insurance payments, which will reduce the reliance on operational cashflows. The company is developing MSR Pacman project, which is being funded by construction finance loan and equity contribution from the promoter. The liquidity profile of the company is expected to improve with the completion and leasing of Wing E in Helios Business Park and the MSR Pacman project.

Rating sensitivities

Positive trigger – ICRA could upgrade the ratings of MSRDB if timely completion and leasing of the assets under development results in substantial reduction in leverage, as measured by debt to rental ratio. Additionally, adequate

leasing progress, which supports the refinancing ability for the construction finance loan will be a positive trigger for the construction finance loan.

Negative trigger – Any decline in the occupancy rate, delay in leasing of under-development assets or increase in debt resulting in increased leverage (measured in terms of debt/annual rental income) of 5.5x on a sustained basis might lead to a rating downgrade.

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	While assigning the ratings, ICRA has considered the consolidated operational and financial profile of MSRDB and RSTP given the strong operational and financial linkages between the two entities. The two entities are co-borrowers for some of the rated facilities.

About the company

M S Ramaiah Developers and Builders Pvt Ltd (MSRDB)

MSRDB, incorporated in 2002, is promoted by Mr M R Seetharam. The company, along with its subsidiary RSTP, owns 9.2 lakh sq. ft. of leasable area in Helios Business Park (jointly developed with Kalyani Tech Park Private Limited through a JDA) located on the Outer Ring Road at Kadubeesanahalli in Bengaluru. MSRDB will also receive its share of 4.5 lakh sq. ft. of leasable area in Wing E of Helios Business Park, which is expected to be completed by March 2021. MSRDB is also developing a commercial office project, MSR Pacman, with a leasable area of 2.6 lakh sq. ft. (company's share) at Nagwara in Bengaluru.

Ramaiah Soft Tech Park (RSTP)

RSTP is a partnership firm, held 61% by MSRDB and the remaining by Mr. M R Seetharam and his family. RSTP has 50% economic interest in Wing C of Helios Business Park.

Key financial indicators¹

	FY2019 Audited	FY2020 Audited
Operating Income (Rs. crore)	37.6	59.4
PAT (Rs. crore)	-6.7	6.5
OPBDIT/OI (%)	73.2%	70.4%
PAT/OI (%)	-17.8%	11.0%
Total Outside Liabilities/Tangible Net Worth (times)	3.4	3.5
Total Debt/OPBDIT (times)	13.7	10.4
Interest Coverage (times)	1.0	1.4

¹ Key financial indicators have been provided for the consolidated financials of MSRDB and RSTP.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding ²	Rating 15-Dec-2020	FY2020	FY2019	FY2018
1	Term Loans	Long Term	408.00	381.85	[ICRA]BBB+ (Stable)	-	-	-
2	Term Loans	Long Term	122.00	58.34	[ICRA]BBB (Stable)	-	-	-

Amounts in Rs. crore

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

² Amount outstanding is as on 31st October 2020
www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan I	Jul-2018	-	Jul-2033	148.00	[ICRA]BBB+ (Stable)
NA	Term Loan II	Sep-2020	-	Aug-2033	260.00	[ICRA]BBB+ (Stable)
NA	Term Loan III	Sep-2018	-	Sep-2023	120.00	[ICRA]BBB (Stable)
NA	Term Loan IV	Jun-2020	-	May-2027	1.75	[ICRA]BBB (Stable)
NA	Term Loan V	Jun-2018	-	May-2025	0.25	[ICRA]BBB (Stable)

Source: M S Ramaiah Developers And Builders Pvt Ltd & Ramaiah Soft Tech Park

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership ³	Consolidation Approach
M S Ramaiah Developers And Builders Pvt Ltd	-	Full Consolidation
Ramaiah Soft Tech Park	61%	Full Consolidation

³ MSRDB has profit sharing of around 61% in RSTP while Mr M R Seetharam and his family have the balance 39% profit sharing in RSTP.

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