

March 16, 2021

Millennia Realtors Private Limited: Rating removed from watch and upgraded to [ICRA]A-; stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term Loan	550.00	347.32	[ICRA]A- (Stable); rating removed from watch and upgraded from [ICRA]BBB-; Stable outlook assigned
Long-term – Unallocated	79.76	-	
Total	629.76	347.32	

*Instrument details are provided in Annexure-1

Rationale

The rating action follows the conclusion of the sale of certain completed commercial real estate assets of the RMZ Group to Brookfield Properties in December 2020, and clarity on the utilization of the proceeds from the transaction. The net proceeds have been utilized primarily towards prepayment of identified debt, including acquisition debt in Millennia Realtors Private Limited (MRPL, the ultimate holding company for the RMZ Group) and other holding companies within the Group.

The upgrade in rating takes into account the significant deleveraging in the Group through the above-mentioned monetization of assets. Acquisition and general corporate debt of around Rs 3,200 crore at the Group level have been prepaid in December 2020. The consolidated debt outstanding in MRPL stood at Rs 3,392 crore as on December 31, 2020, which is entirely in the form of lease rental discounting (LRD) loans or construction finance for under-construction projects as against Rs 16,040 crore as on September 30, 2020. MRPL's equity investments in various SPVs owning completed and under-development commercial real estate assets is fully unencumbered as on date.

The rating action also takes into account the adequate equity tie-up for the ongoing projects of the Group through equity funding raised and proposed to be raised from investors such as Mitsui. MRPL's investment commitment towards the ongoing projects of the Group are expected to remain minimal after the completion of the upcoming equity platform with a new Investor. MRPL is expected to realize additional funds in the next 12 months from the various equity investment and sale transactions completed, which will largely be utilized towards further prepayment of debt.

The rating continues to draw comfort from the established track record and the reputation of the RMZ Group in the real estate sector, especially in the commercial office space development segment. Millennia Realtors Private Limited (MRPL) has demonstrated financial flexibility, aided by its established relationship with lenders and the valuation of its investments in SPVs of the Group.

The rating is however constrained by the limited cash flows of MRPL on a standalone basis and reliance on monetization of assets or upstreaming of surpluses from the SPVs in case of any large funding requirements. On a standalone basis, MRPL has annual rental income of around Rs 30 crore and completed residential inventory which covers the loans against these cash flows. Notwithstanding its share of completed development with leasable area of 2.9 msf, the Group has sizeable future development plans with area currently under development of around 5.7 msf and upcoming development pipeline of 8.9 msf. This results in high project risk at the Group level and corresponding contingent liabilities and funding commitments for MRPL as the holding company. Out of the consolidated debt, around 42% is in the form of project / construction finance and this is expected to increase in the near to medium term with the expected drawdown for ongoing projects. The impact of the Covid-19 pandemic and subsequent adoption of work-from-home by corporate tenants on the demand for office space leasing will also be a key monitorable, given the large scale of area under development. Nonetheless, ICRA notes that the Group intends

to stagger the development in line with the market conditions and also tie-up equity funding for upcoming projects through investments from financial investors, similar to the funding plan for the current ongoing projects.

The stable outlook represents ICRA's expectation that the Group will benefit from its established track record in the commercial real estate space and the improvement in consolidated leverage profile.

Key rating drivers and their description

Credit strengths

Track record of the Group in commercial real estate - The RMZ Group has an established track record and reputation in the real estate sector of Bengaluru, especially in the commercial office space development segment. The RMZ Group has completed the development of commercial office space, measuring over 20 million square feet (mn sqft) with assets spread across the cities of Bengaluru, Pune, Kolkata, Chennai and Hyderabad. The Group has recently sold around 12 msf of its completed commercial real estate portfolio to Brookfield Properties. Though the scale of completed assets owned by the Group has declined as a result of this transaction, the development pipeline remains strong with close to 15 msf of area under construction or under planning.

Significant deleveraging through monetization of assets – There has been significant deleveraging in the Group through the above-mentioned monetization of assets. Acquisition and general corporate debt of around Rs 3,200 crore at the Group level have been prepaid in December 2020. The consolidated debt outstanding in MRPL stood at Rs 3,392 crore as on December 31, 2020, which is entirely in the form of lease rental discounting (LRD) loans or construction finance for under-construction projects as against Rs 16,040 crore as on September 30, 2020. MRPL's equity investments in various SPVs owning completed and under-development commercial real estate assets is fully unencumbered as on date. MRPL is expected to realize additional funds in the next 12 months from the various equity investment and sale transactions completed, which will largely be utilized towards further prepayment of debt.

Equity tie-up for ongoing projects – MRPL has tied up adequate equity funding for the ongoing projects of the Group through equity raised and proposed to be raised from investors such as Mitsui. MRPL's investment commitment towards the ongoing projects of the Group are expected to be limited after the completion of the upcoming equity platform with a new Investor. The rating draws comfort from the stated intent of the management to tie-up similar equity platforms for the upcoming projects of the Group as well.

Credit challenges

Limited cash flows on standalone basis – MRPL has limited cash flows on a standalone basis and is reliant on monetization of assets or upstreaming of surpluses from the SPVs in case of any large funding requirements. On a standalone basis, MRPL has annual rental income of around Rs 30 crore and completed residential inventory which covers the loans against these cash flows.

Funding commitments and contingent liabilities pertaining to development portfolio - The Group has sizeable future development plans with area currently under development of around 5.7 msf and upcoming development pipeline of 8.9 msf. This results in corresponding contingent liabilities and funding commitments for MRPL as the holding company. Out of the consolidated debt, around 42% is in the form of project / construction finance and this is expected to increase in the near to medium term with the expected drawdown for ongoing projects. Nonetheless, ICRA notes that the Group intends to tie-up equity funding for upcoming projects, similar to the equity platforms for the current ongoing projects.

Project risks – The Group is exposed to project risks in its ongoing and upcoming portfolio in the form of execution, funding and market risks. The impact of the Covid-19 pandemic and subsequent adoption of work-from-home by corporate tenants on the demand for office space leasing will also be a key monitorable, given the large scale of area under development. Any sustained weakness in new leasing activity can impact the pre-leasing in ongoing projects and refinancing ability for the Group's construction finance loans.

Liquidity position: Adequate

MRPL's liquidity is expected to remain adequate, with comfortable DSCR metrics for the loans outstanding on its standalone balance sheet. MRPL's overheads are expected to be covered by the management fees charges to its SPVs. MRPL has strong financial flexibility arising from its investments in completed, ongoing and upcoming commercial real estate projects. In the past MRPL has demonstrated high financial flexibility and ability to raise funds against its investment portfolio.

Rating sensitivities

Positive factors – Successful tie-up of equity funding for the upcoming project portfolio of the Group and mitigation of the project risks in the under-development portfolio can be positive triggers.

Negative factors – Any increase in leverage at the Group level to support investments in ongoing / upcoming projects or increase in project risks in the under-development portfolio will be negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities Rating Methodology for debt backed by lease rentals Rating Methodology for Holding Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MRPL. However, due to the presence of external investors and/or defined cash flow waterfall mechanism as part of debt availed in the SPVs, a limited consolidation approach has been undertaken for the SPVs.

About the company

MRPL is the ultimate holding company of the RMZ Group, which is one of the leading players in the commercial real-estate segment of Bengaluru. Since 1997, the Group's activities have been concentrated on the commercial real-estate segment, primarily in Bengaluru. Other locations where the RMZ Group has completed projects include Pune, Kolkata, Chennai and Hyderabad. On a standalone basis, MRPL derives rental income from its share of The Millenia, an office property in Bangalore. At present, MRPL has investments in completed office projects in Hyderabad (Skyview) and Bangalore (Startech) apart from ongoing projects in Bangalore (Ecoworld 30), Chennai (One Paramount) and Hyderabad (Nexity).

Key financial indicators (audited)

MRPL standalone	FY2019	FY2020
Operating Income (Rs. crore)	79.5	109.4
PAT (Rs. crore)	-63.6	20.3
OPBDIT/OI (%)	5.9%	7.2%
PAT/OI (%)	-80.0%	18.6%
Total Outside Liabilities/Tangible Net Worth (times)	10.7	17.9
Total Debt/OPBDIT (times)	244.2	246.6
Interest Coverage (times)	0.3	1.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Chronology of Rating History			
		Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating in	FY2021	FY2020	FY2019
					Mar 16, 2021	Oct 09, 2020	May 10, 2019	Apr 13, 2018
1	Term loan	Long Term	550.0	347.31	[ICRA]A- (Stable)	[ICRA]BBB- &	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Unallocated	Long Term	79.76	-	[ICRA]A- (Stable)	[ICRA]BBB- &	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)

&= Under watch with developing implications; * as on December 31, 2020

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 [click here](#)

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-I	June 2018	NA	Jun-2033	265.57	[ICRA]A- (Stable)
NA	Term Loan-II	June 2018	NA	Jun-2023	81.74	[ICRA]A- (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
RMZ Infotech (Pune) Private Limited	100%	Full Consolidation
Prestige City Properties	49%	Limited Consolidation
RMZ Infotech Park (India) Private Limited	51%	Limited Consolidation
RMZ Hotels Private Limited	51%	Limited Consolidation
RMZ Construction Private Limited	100%	Limited Consolidation
RMZ Corp Holding Private Limited	51%	Limited Consolidation
RMZ Infinity (Chennai) Limited	100%	Limited Consolidation
Akarshak Infrastructure Private Limited	50%	Limited Consolidation
Prahitha Constructions Private Limited	100%	Limited Consolidation

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