October 29, 2021

RMZ Ecoworld Infrastructure Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	3,753.80	3,753.80	[ICRA] A- (Stable); reaffirmed
Total	**3,753.80**	**3,753.80**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account the recent refinancing of the majority of the debt in RMZ Infotech Private Limited (REIPL) and RMZ Ecoworld Infrastructure Private Limited (REIPL) whereby earlier bridge debt facility has been taken over entirely by lease rental discounting (LRD) loans, in line with earlier management guidance. Through the refinancing there has been increase in the average debt maturity and reduction in average interest rate. Nonetheless, the leverage for the portfolio is expected to remain elevated, resulting in modest debt coverage metrics despite the improvements after the recent refinancing. The impact of the high leverage is partly offset by the periodic fund infusion by sponsors for maintaining adequate liquidity in the SPVs to meet cash flow mismatches in the past. On a consolidated basis, RIPL group had unencumbered bank balances of Rs. 455 crore and additional liquidity in the form of debt service reserve accounts totalling to around Rs. 200 crore as of September 2021.

The rating continues to positively factor in the strong portfolio of the completed real estate assets (12.08 mn sqft of completed leasable area), and the satisfactory overall occupancy level (88%) of the portfolio, supported by long-term lease agreements and a good track record of tenant stickiness, owing to competitive rentals in most of the assets. The rating also derives strength from the track record of sponsors, which are funds managed by Brookfield Asset Management. The Group is one of the largest real estate investment managers globally and has an established track record in India, further demonstrated by its recent listing of a Real Estate Investment Trust (REIT) in India.

The rating continues to be constrained by vacancy risks associated with the leased portfolio and exposure to interest rate risk which may result in weakening of debt coverage metrics and put liquidity pressures. The vacancy risks are heightened by the impact of the Covid-19 pandemic on the commercial real estate sector, which has resulted in reduction in occupancy levels as many corporates have continued to operate under work-from-home mode through the pandemic. However, the risks are partially mitigated by the established operational track record of the assets, the strong tenant profile and the competitive rentals.

The stable outlook represents ICRA's expectation that the strong operational profile of the assets, along with the financial flexibility associated with the sponsor group, will support the credit profile of the rated entities. The portfolio has limited exposure to under-construction area and hence does not have material market risk associated with development portfolio. Nonetheless, inability to maintain or improve occupancy level, material decline in rental rates or increase in interest rates may put pressure on the debt coverage metrics and liquidity profile and will be key rating monitorable.

Key rating drivers and their description

Credit strengths

Strong portfolio of completed commercial real estate assets – RIPL currently has a portfolio of 12.08 mn sqft of completed area on a consolidated basis, with the overall occupancy level remaining satisfactory at 88%, supported by long-term lease agreements and a good track record of tenant stickiness owing to competitive rentals in most of the assets. The consolidated portfolio includes business parks located in Bengaluru, Chennai and Pune. The tenant profile in the portfolio remains strong and diversified with leading multinational and Indian corporates. The top-10 tenants generate around 39% of the total gross rentals. Some of the key tenants in the portfolio are Shell, SAP Labs, Honeywell, Standard Chartered, State Street, KPMG, HSBC, Intel and Morgan Stanley, among others.

Strong sponsor group with established track record – Brookfield Group is one of the largest real estate investment managers globally and has an established track record in India, further demonstrated by its successful REIT listing in India. Further, the Group has a track record in management of real estate properties and significant financial flexibility, which will support the asset SPVs in case of any refinancing requirement.

Refinancing of the debt resulting in longer loan tenure and lower interest rates; liquidity supported by DSRA and cash balances - The refinancing exercise has been completed with the issue of Rs. 6,250 crore loan by REIPL and Rs. 3,075 crore loan for RIPL. LRD loans of RAPPL and RNSPL have been paid-off through the REIPL loan as well. Through the refinancing there has been increase in the average debt maturity and reduction in average interest rate, which has resulted in some improvement in debt coverage metrics. Post-acquisition by current sponsors, there has been periodical funds infused in the SPVs, as evidenced by a total unencumbered cash balance of Rs 455 crore as of September 2021 on a consolidated level. The liquidity is also supported by the presence of DSRA of around Rs. 200 crore maintained with the lenders.

Credit challenges

High leverage and moderate coverage indicators; exposure to interest rate risk – Consolidated leverage continues to be high due to the debt availed as part of the acquisition transaction. The stabilised debt / NOI for the portfolio is expected to remain elevated, resulting in modest debt coverage metrics. Debt coverage metrics are also susceptible to volatility in interest rates going forward. Leverage and coverage indicators are expected to improve over the next two years with improvement in rental rates and occupancy levels as Covid impact subsides. Further, the coverage metrics have improved following the recent refinancing.

Exposure to lease vacancy risks; vulnerability to Covid-19 pandemic impact – Although the pandemic had limited impact on the portfolio of the rated entities, in terms of cash flows or occupancy, sustained weakness in the demand for office space due to the impact of the Covid-19 pandemic may further impact the incremental leasing and the realisation of mark-to-market potential of the portfolio assets. However, the risk is partially mitigated by the strong tenant profile and the competitive rentals, which increase the tenant stickiness.

Liquidity position: Adequate

RIPL's liquidity at a consolidated level is expected to remain adequate, supported by the stable rental income from the underlying assets and the low operational expenditure in the leasing business. The high tenant diversity and asset quality partly 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, totalling to around Rs. 200 crore and cash balances totalling to around Rs 455 crore as on September 2021. Liquidity is expected to remain adequate as the management has indicated that around Rs. 200-250 crore of cash excluding DSRA will be maintained going forward.

Rating sensitivities

Positive factors – Ability to lease out current vacancies and improve average rent rates in a timely manner or significant reduction in leverage, thereby resulting in an improvement in coverage ratios could be triggers for rating upgrade. Specific triggers for a rating upgrade include average 5-year DSCR for the portfolio being higher than 1.25 times.

Negative factors – Downward pressure of the rating could emerge due to inability to maintain or improve occupancy level or material decline in rental rates or increase in interest rates, thereby resulting in weakening debt coverage metrics and liquidity pressures.

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	For arriving at the ratings, ICRA has taken a consolidated view of RIPL, two of its subsidiaries – REIPL and RAPPL along with RNSPL (as mentioned in Annexure -2) given the close business and financial linkages among them and a common sponsor support. The core assets and liabilities of RIPL are expected to be transferred to REIPL through an ongoing demerger process. In addition, the assets and cash flows of RAPPL and RNSPL are part of the security package for the debt availed in REIPL.

About the company

The consolidated asset profile of RIPL, REIPL, RAPPL and RNSPL has a portfolio of 12.08 mn sqft of completed area on a consolidated basis, with an overall occupancy level of 88%, supported by long-term lease agreements and a good track record of tenant stickiness owing to competitive rentals in most of the assets. The consolidated portfolio includes business parks such as Ecospace, Ecoworld, Centennial, NXT in Bengaluru, RMBP I and RMBP II in Chennai, Icon in Pune and Northstar in Bengaluru. The tenant profile in the portfolio remains strong and diversified with leading multinational and Indian corporates such as Shell, SAP Labs, Honeywell, Standard Chartered, State Street, KPMG, HSBC, Intel and Morgan Stanley.

Currently, RIPL is 100% indirectly held by BSREP III New York FDI I (DIFC), post-acquisition by Brookfield from RMZ Group. REIPL and RAPPL are 100% subsidiaries of RIPL as per the current shareholding structure. RNSPL is wholly held by BSREP III New York II (DIFC). BSREP III New York FDI I (DIFC) and BSREP III New York II (DIFC) are a part of Brookfield Group, which is one of the largest real estate investment managers globally and has an established track record in India.

Key financial indicators

RIPL Consolidated	FY2020P	FY2021P
Operating Income (Rs. crore)	1259.9	1229.8
PAT (Rs. crore)	-124.1	-6541.5
OPBDIT/OI (%)	66.6%	75.3%
PAT/OI (%)	-9.9%	-531.9%
Total Outside Liabilities/Tangible Net Worth (times)	5.4	-2.4
Total Debt/OPBDIT (times)	10.8	11.1
Interest Coverage (times)	0.8	0.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; FY2020 and FY2021 numbers are provisional in nature

Note: The financials till November 2020 (8MFY2021) include two assets – RMZ Infinity Gurgaon and RMZ Infinity Bangalore which are not part of the portfolio acquired by Brookfield Group. Moreover, RMZ Infinity Chennai Limited has ceased to be a subsidiary of RIPL. Therefore, going forward, the financials will not be comparable with the past financials reported.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 2020	Date and Rating on	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019		
					October 29, 2021	Oct 01, 2021	Apr 6, 2021	Oct 9, 2020	Dec 26, 2019	Aug 30, 2019	Feb 18, 2019	Dec 13, 2018	Oct 08, 2018 Jun 06, 2018 Apr 30, 2018
1	Term Loans	Long-term	3,753.80	3,753.80	[ICRA]A-Stable)	[ICRA]A-(Stable);	[ICRA]A-(Stable)	[ICRA]A&	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Stable)	Provisional [ICRA]AA-(SO) (Stable)
2	NCD	Long-term	--	--	--	[ICRA]A-(Stable); Withdrawn	[ICRA]A-(Stable)	[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)

&= Under watch with developing implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loans	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 analyzing 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, is available on ICRA's 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 Loans	FY2017-FY2022*	-	FY2036 @	3753.80	[ICRA]A-(Stable)

** Represents loans sanctioned between FY2017 and FY2022*

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

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
RMZ Infotech Private Limited (RIPL)	Parent	Full consolidation
RMZ Ecoworld Infrastructure Private Limited (REIPL)	Fellow Subsidiary (100.00%)	Full consolidation
RMZ Azure Projects Private Limited (RAPPL)	Fellow Subsidiary (100.00%)	Full consolidation
RMZ Northstar Project Private Limited (RAPPL)	Common Sponsor	Full consolidation

Source: *Company*

Note: *ICRA has taken a consolidated view of the RIPL, its subsidiaries – REIPL and RAPPL along with RNSPL while assigning the ratings.*

ANALYST CONTACTS

Rajeshwar Burla
+91-3371501100
ajeshwar.burla@icraindia.com

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

Ritika Mundhra
+91-80-43326412
ritika.mundhra@icraindi.com

Neha Malusare
+91-80-4332 6400
neha.malusare@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

Registered Office

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

Branches