

April 05, 2022

## Millennia Realtors Private Limited: Rating upgraded to [ICRA]A (Stable)

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	347.32	347.32	[ICRA]A (Stable); rating upgraded from [ICRA]A- (Stable)
<b>Total</b>	<b>347.32</b>	<b>347.32</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The upgrade in rating takes into account the significant equity raise for the development portfolio of MRPL, leading to mitigation of funding risks associated with such projects along with part-recovery of capital invested in the projects. During FY2022, the Group concluded the definitive agreements for an equity platform with Canada Pension Plan Investment Board (CPPIB) covering four projects with leasable area of 8.2 million square feet and total investment of Rs 1,500 crore. Recently, the Group has announced a second equity platform with CPPIB with a total equity investment of Rs 2,650 crore which is expected to invest in upcoming projects of the Group. Along with the stake dilution in these projects, there is also reduction in contingent liabilities of MRPL towards these projects with incremental support undertakings provided being lower than the debt obligations in the SPVs and proportionate to MRPL's stake in them.

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 segment. Millennia Realtors Private Limited (MRPL) has demonstrated financial flexibility, aided by its established relationship with lenders and the valuation of its investments in the SPVs of the Group. MRPL has realized significant funds in the last 12 months from the various equity investments completed, which has been largely utilized towards funding upcoming projects. Similar capital inflows expected from upcoming equity platforms support the Group's growth and debt prepayment plans.

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 with estimated future cash flows of around Rs. 81 crore as of December 2021. Notwithstanding its share of completed development with leasable area of 4.0 msf (million square feet), the Group has sizeable future development plans with area currently under development of around 5.3 msf and upcoming development pipeline of 5.1 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 35% is in the form of project / construction finance and this is expected to increase in the near to medium term with the expected debt drawdown for ongoing projects. Over the last couple of years, Covid-19 pandemic has led to subdued demand for office space leasing. Notwithstanding the expected recovery in leasing demand in the current year, timely lease tie-ups remain 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, as seen for its current ongoing projects.

The stable outlook represents ICRA's expectation that MRPL will benefit from its established track record of the Group in the commercial real estate space and financial flexibility derived from its investment portfolio.

## 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 19 million square feet (mn sqft) with assets spread across the cities of Bengaluru, Pune, Kolkata, Chennai and Hyderabad. The Group had in FY2021 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 11 msf of area under construction or under planning.

**Equity funding in place for ongoing projects** – MRPL has tied up adequate equity funding for the ongoing projects of the Group through equity raised from investors such as Mitsui and CPPIB. Over the last 12 months, majority of the equity commitments has already been infused by these investors. The ongoing projects stand well-funded and MRPL's investment commitment towards such projects of the Group is limited. The rating draws comfort from the stated intent of the management to tie-up similar equity funding for the upcoming projects of the Group as well. Recently, the Group has announced a second equity platform with CPPIB with a total equity investment of Rs 2,650 crore which is expected to invest in more upcoming projects of the Group.

**Strong financial flexibility** – MRPL's equity investments in various SPVs owning completed and under-development commercial real estate assets is unencumbered as on date, lending strong financial flexibility. MRPL has realized significant funds in the last 12 months from the various equity investments completed, which has been largely utilized towards funding upcoming projects. Similar capital inflows expected from upcoming equity platforms support the Group's growth and debt prepayment plans. Also, MRPL's stake in the existing investment portfolio provides headroom to raise additional debt, if required, to fund any immediate investing requirements.

### 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 with estimated future cash flows of around Rs. 81 crore as on December 2021. MRPL has LRD and inventory funding debt outstanding 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 5.3 msf and upcoming development pipeline of 5.1 msf. This results in corresponding contingent liabilities and funding commitments for MRPL as the holding company. Out of the consolidated debt, around 35% 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 and reduce its exposure towards recourse on the loans availed/expected to be availed in the investment portfolio.

**Project risks** – The Group is exposed to project risks in its ongoing and upcoming portfolio largely in the form of execution and market risks. Over the last couple of years, Covid-19 pandemic has led to subdued demand for office space leasing. Notwithstanding the expected recovery in leasing demand in the current year, timely lease tie-ups remain a key monitorable given the large scale of area under development. Any weakening 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 rental inflows and residential collections expected to remain adequate to meet all the operational and debt servicing requirements at a standalone level. 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** – More than 55% of the investment portfolio becoming operational and stabilized with comfortable occupancy levels while maintaining comfortable leverage metrics on a sustained basis could be a trigger for rating upgrade.

**Negative factors** – Any increase in leverage at the holding company level for investments in ongoing / upcoming projects or inadequate leasing tie-up / execution progress in the under-development portfolio which increases dependence on funding support from MRPL can put pressure on the rating.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for debt backed by lease rentals</a> <a href="#">Rating Methodology for Holding Companies</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of MRPL. 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, under which the proposed equity investments for under-construction projects and funding support required by the operational special purpose vehicles (if any) towards debt servicing and operational shortfall have been considered.

## 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), Bangalore (Startech) and Chennai (One Paramount-I) apart from ongoing projects in Bangalore (Ecoworld 30 & 20), and Hyderabad (Nexity).

## Key financial indicators (audited)

MRPL standalone	FY2020	FY2021
Operating Income (Rs. crore)	94.6	107.0
PAT (Rs. crore)	4.3	659.6
OPBDIT/OI (%)	-28.0%	-74.0%
PAT/OI (%)	4.5%	616.4%
Total Outside Liabilities/Tangible Net Worth (times)	19.7	4.3
Total Debt/OPBDIT (times)	-69.1	-35.9
Interest Coverage (times)	1.1	7.1

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

Source: Company

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2023)			Chronology of Rating History				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Oct 31, 2021 (Rs. crore)	Date & Rating in	FY2022	FY2021		FY2020
					April 05, 2022	-	Mar 16, 2021	Oct 09, 2020	May 10, 2019
1	Term loans	Long Term	347.32	290.00	[ICRA]A (Stable)	-	[ICRA]A-(Stable)	[ICRA]BBB- &	[ICRA]BBB-(Stable)
2	Unallocated	Long Term	-	-	-	-	-	[ICRA]BBB- &	[ICRA]BBB-(Stable)

&= 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](http://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-I	June 2018	NA	Jun-2033	265.57	[ICRA]A (Stable)
NA	Term Loan-II	June 2018	NA	Jun-2023	81.75	[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	50%	Limited Consolidation
RMZ Construction India Private Limited	50%	Limited Consolidation
RMZ Corp Holding Private Limited	51%	Limited Consolidation
RMZ Infinity (Chennai) Limited	50%	Limited Consolidation
Prahitha Constructions Private Limited	50%	Limited Consolidation
Divija Commercial Properties Private Limited	50%	Limited Consolidation
RMZ One Paramount Private Limited	50%	Limited Consolidation
RHDPL	100%	Limited Consolidation
Vismaya Infrastructure Private Limited	100%	Limited Consolidation
RMZ Unified Service Private Limited	50%	Limited Consolidation
Abbey Realtors LLP	50%	Limited Consolidation

Source: Company

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