

March 28, 2024

Millennia Realtors Private Limited: Rating reaffirmed for bank facilities and rating assigned for proposed NCDs

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	499.0	499.0	[ICRA]A+ (Stable); reaffirmed
Proposed Non-convertible debenture	0.0	210.0	[ICRA]A+ (Stable); assigned
Total	499.0	709.0	

*Instrument details are provided in Annexure-I

Rationale

The rating action for Millennia Realtors Private Limited (MRPL) factors in the improvement in the risk profiles of its investee companies, with around ~60% of the investment portfolio expected to become operational by the end of FY2025 (45% as of March 2024). The rating considers the reduction in funding risks led by equity raised for MRPL's development portfolio. In Q1 FY2024, the Group concluded second platform with the Canada Pension Plan Investment Board (CPPIB), covering three projects totalling 6.2 million square feet (msf) at a total investment of ~Rs. 2,270 crore. This, along with healthy pre-leasing and adequate leasing pipeline of the investment portfolio, which is expected to be operational over the next six to nine months, reduces the market risks to an extent.

The rating continues to favourably factor in the established track record and reputation of the RMZ Group in the commercial real estate sector. MRPL has strong financial flexibility, aided by its established relationships with lenders and partnerships with reputed investors. The current ongoing projects are well funded with tie-ups from equity investors and MRPL's existing investment portfolio provides headroom to raise additional debt or stake dilution, if required, to fund any future investing requirements.

The rating is, however, constrained by the holding company nature of operations with limited cash flows on a standalone basis and reliance on monetisation of assets or upstreaming of surpluses from the investee companies to meet its funding requirements. On a standalone basis, the company has an annual rental income of around Rs. 40 crore. The rating notes that the Group has sizeable projects under development of around 13.3 msf and upcoming pipeline of 2.4 msf at present, which exposes it to moderate market and execution risks. Notwithstanding the RMZ Group's track record of leasing and favourable locations of the projects, timely lease tie-ups, remains a key monitorable, given the large scale of the area under development. Any weakening in new leasing activity can impact the pre-leasing in the ongoing projects and refinancing ability for the Group's construction finance loans. Nonetheless, ICRA notes that the Group intends to stagger the development in line with the market conditions and tie-up equity funding for the upcoming projects through investments from financial investors, as seen for its current ongoing projects.

ICRA notes that there has been a healthy reduction of contingent liabilities over the last two years. The same is expected to further decline by around 40% by September 2024. ICRA is given to understand that MRPL will incrementally not provide any corporate guarantees to the investee companies.

The Stable outlook reflects ICRA's expectations 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 a strong execution track record in the real estate space and is one of the leading players in the commercial real estate segment. It has developed over 20 msf of commercial real estate space across Bengaluru, Chennai, Hyderabad, Pune, Kolkata, and Gurgaon. The Group has a track record of timely completion of large-sized projects with high occupancy levels across its properties. The development pipeline of the Group remains strong with close to 13.3 msf of area.

Strong financial flexibility – MRPL has strong financial flexibility, aided by its established relationships with lenders and partnerships with reputed investors. The current ongoing projects are well funded with tie-ups from equity investors. MRPL's existing investment portfolio provides headroom to raise additional debt or stake dilution, if required, to fund any future investing requirements.

Equity funding in place for majority of ongoing projects – MRPL has tied up with equity investors such as CPPIB and Mitsui Fudosan for majority of the ongoing projects, resulting in reduced funding risk. In Q1 FY2024, the Group concluded second platform with CPPIB, covering three projects totaling 6.2 msf at a total investment of ~Rs. 2,270 crore. Further, MRPL's investee companies' risk profiles improved with around 60% of the investment portfolio expected to become operational by the end of FY2025 (45% as of March 2024).

Credit challenges

Limited cash flow on standalone basis – The rating is constrained by the holding company nature of operations with limited cash flows on a standalone basis and reliance on monetisation of assets or upstreaming of surpluses from the investee companies to meet its funding requirements. On a standalone basis, the company has an annual rental income of around Rs. 40 crore. Against these cash flows, it has a lease rental discounting (LRD) and corporate loan of around Rs. 490.0 crore as of February 2024.

Exposure to moderate market and execution risks – At present, the Group has sizeable projects under development of around 13.3 msf and upcoming pipeline of 2.4 msf, which exposes it to moderate market and execution risks. Notwithstanding the RMZ Group's track record of leasing and favourable locations of the projects, timely lease tie-ups remain a key monitorable, given the large scale of the 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. Nonetheless, the Group intends to stagger the development in line with the market conditions and tie-up equity funding for the upcoming projects through investments from financial investors, as seen for its current ongoing projects.

High contingent liabilities, however, expected to reduce in the near term – MRPL has provided corporate guarantees to the debt raised at investee companies, thereby resulting in high contingent liabilities. However, there has been a healthy reduction in contingent liabilities over the last two years. The same is further expected to fall by around 40% by the end of September 2024. ICRA is given to understand that MRPL will incrementally not provide any corporate guarantees to investee companies.

Liquidity position: Adequate

MRPL's liquidity is expected to remain adequate, with cash flow from operations adequate to meet all the debt servicing requirements at a standalone level. The debt repayments on the company's corporate loans will be repaid through proceeds from management income received from its subsidiaries/group companies. MRPL has strong financial flexibility arising from its investments in completed, ongoing and upcoming commercial real estate projects.

Rating sensitivities

Positive factors – Significant improvement in risk profile of investee companies with more than 75% of investment portfolio becoming operational and/or monetisation of completed portfolio resulting in improvement in leverage in holding company and liquidity position may trigger a 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	Corporate Credit Rating Methodology Realty – Lease Rental Discounting (LRD) Investment companies
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, 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. 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 Bengaluru. At present, it has investments in completed office projects in Hyderabad (Skyview), Bengaluru (Startech & Ecowold 30 – Phase 1) and Chennai (One Paramount-1), apart from ongoing projects in Bengaluru (Ecoworld 30 & 20), Hyderabad (Nexity, Spire, Vault), Chennai (One Paramount-2), Mumbai (Nexus) and Pune (Edge and Helix).

Key financial indicators

Standalone	FY2022	FY2023
Operating income	97.3	77.3
PAT	41.9	-91.8
OPBDIT/OI	-196.3%	-112.4%
PAT/OI	43.1%	-118.7%
Total outside liabilities/Tangible net worth (times)	3.6	4.2
Total debt/OPBDIT (times)	-13.7	-31.3
Interest coverage (times)	3.2	-2.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Source: Company, ICRA research.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2024)		Chronology of rating history for the past 3 years			
			Amount o/s as on March 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				March 28, 2024	June 23, 2023	Apr 05, 2022	-	Mar 16, 2021
1 Term loans	Long term	499.0	370.3	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-	[ICRA]A- (Stable)
2 Proposed NCD	Long term	210.0	0.0	[ICRA]A+ (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Proposed NCD	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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loans	June 2018	-	June 2033	499.0	[ICRA]A+ (Stable)
-	Proposed NCD*	-	-	-	210.0	[ICRA]A+ (Stable)

Source: Company; * yet to be placed

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis:

Company Name	Ownership*	Consolidation Approach
RMZ One Paramount Private Limited	50%	Limited Consolidation
RMZ Infinity (Chennai) Pvt Ltd	50%	Limited Consolidation
Divija Commercial Properties Pvt Ltd	50%	Limited Consolidation
Vismaya Infrastructure Pvt Ltd	100%	Limited Consolidation
ERPL	26%	Limited Consolidation
RMZ Hotels Private Limited	50%	Limited Consolidation
RMZ City Estates Private Limited	20%	Limited Consolidation
Prahitha Construction Private Limited	50%	Limited Consolidation
RMZ Unified Service Private Limited	50%	Limited Consolidation
RMZ Construction India Pvt Ltd	50%	Limited Consolidation
One Boat Club Road Real Estate Private Liquid	20%	Limited Consolidation
Koregaon Park High Street Properties Private Limited	50%	Limited Consolidation

Source: Company; *directly held by MRPL/held by the common shareholders of MRPL

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