ICRA

January 03, 2017

RMZ Ecoworld Infrastructure Private Limited

Instrument*	Rated Amount (In Crore)	Rating Action
LT Scale – Term Loans	2,190.42	Upgraded to [ICRA]A+ (Stable) from [ICRA]A(SO) (Stable)
LT Scale – Term Loans	870.00	Upgraded to [ICRA]A+(SO) (Stable) from [ICRA]A(SO) (Stable)
Total	**3060.42**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has upgraded the long-term rating assigned to Rs 2,190.42-crore term loans of RMZ Ecoworld Infrastructure Private Limited (REIPL) to [ICRA]A+ (pronounced as ICRA A plus) from [ICRA]A(SO) (pronounced as ICRA A structured obligation). ICRA has also upgraded the long-term rating assigned to Rs 870.00-crore term loans of REIPL to [ICRA]A+(SO) (pronounced as ICRA A structured obligation) from [ICRA]A(SO). The total limits rated have been enhanced to Rs 3,060.42-crore from Rs 2,079.31-crore earlier. The long-term rating has a stable outlook.

Rationale

While assigning the rating, ICRA has taken a consolidated view of RMZ Ecoworld Infrastructure Private Limited along with its parent company, RMZ Infotech Private Limited (RIPL, rated [ICRA]A+ with stable outlook), and its fellow subsidiaries on account of the strong operational and financial linkages between the entities.

The rating for Rs 870.00-crore construction finance term loans has been upgraded based on the strength of the corporate guarantees provided by RMZ Infotech Private Limited (RIPL, rated [ICRA]A+ with stable outlook) towards the aforementioned facilities. The letters SO in parenthesis suffixed to the rating symbol for these facilities stand for Structured Obligation. An SO rating is specific to the rated issue, its terms and its structure. SO ratings do not represent ICRA's opinion on the overall credit quality of the issuers concerned. The ratings address the servicing of the loans to happen as per the terms of the underlying loan and guarantee arrangements and the rating assume that the guarantees will be duly invoked in case there is a default in payment by the borrower. The rating does not involve a structured payment mechanism.

While upgrading the rating for the rental securitization term loans of Rs 2,190.42-crore and reassigning the rating on standalone basis for them, ICRA has factored in the stabilized operational profile and adequate coverage metrics for the rental securitization loans of REIPL on the back of healthy occupancies and rentals in its portfolio. While these facilities are also secured by corporate guarantee from RIPL, ICRA expects the dependence on corporate guarantee for timely servicing of these facilities to be low.

The rating upgrade is driven by the significant growth in RIPL's consolidated scale of operations and expected improvement in its debt coverage ratios over the near to medium term. During FY2016, RIPL saw stabilization of rental income from 3.0 million square feet (msf) of recently completed commercial office space. In addition, RIPL acquired 1.4 msf of completed and fully-leased out office space during the year, thereby taking its portfolio of completed development to 10.6 msf, with an overall occupancy level of more than 98%. RIPL receives annual rental income of around Rs 700 crore from the developed area along with its associated maintenance charges. The under-construction area of 2.5 msf in the Ecoworld project (being developed in REIPL) in Bangalore is expected to start generating rental income within the next 6 months, thereby increasing RIPL's annual rental potential to around Rs 880 crore. The execution and leasing progress in the Ecoworld project has been in line with ICRA's expectations, aided by buoyant market demand for Grade A commercial office space in Bangalore.

RIPL is also refinancing a large share of its rental securitisation loans with new loans that have back-ended repayment structures and lower interest costs. This will improve the company's debt coverage ratios in the near to medium term, albeit with increased exposure to refinancing risk. The presence of debt service reserve accounts (DSRA) for the new loans will also support the liquidity profile of RIPL and help in absorbing short-term cash flow mismatches, if any.

The rating continues to draw comfort from the favourable location of RIPL's projects, reputed tenant profile, large investment in fit-outs by tenants and RMZ's track record in maintaining high occupancy levels in its properties. Nonetheless, RIPL's ability to maintain high occupancy levels in its operational commercial properties will be a key credit monitorable, given that the lock-in period has expired for majority of the leases.

The rating is, however, constrained by RIPL's high level of leveraging through rental securitisation loans and the moderate cover of rental inflows over debt servicing requirements, rendering RIPL's debt coverage ratios vulnerable to variability in interest rates, TDS rates and occupancy levels. RIPL's gross debt level at end-FY2017 is projected to be around 6.4x of the rental income, limiting the flexibility to raise additional loans against these cash flows. Moreover, the back-ended principal amortisation structure in certain loans will expose the company to refinancing risk as the ability to periodically refinance them with credit lines that have similar amortisation structure is critical to maintain the debt coverage ratios. The rating is also constrained by the low operating and net profit margins at RIPL on a consolidated basis, resulting from higher operating expenses reported in REIPL because of the ongoing construction, as required under accounting standards. Nonetheless, ICRA notes that with the capex phase of REIPL coming to a close in the next year, the margins would improve in the medium term and converge with the EBITDA margins of around 80%, as currently reported in RIPL's standalone financials. ICRa also notes that the private equity (PE) investors have to be provided an exit through IPO / real estate investment trust (REIT) listing by 2017. Moreover, the proposed acquisition portfolio of RIPL will increase the leverage levels along with the construction and market risks on a consolidated basis.

Going forward, RIPL's ability to maintain occupancy levels in its completed portfolio and manage the execution and market risks associated with the acquisition pipeline would be the key rating sensitivities. Moreover, timely refinancing of construction finance loans with rental securitisation loan will be critical; this assumes additional significance given that the payouts for the acquisition pipeline is to be part funded by top-ups proposed on such refinancing.

Key Rating Drivers

Credit Strengths
- Growth in RIPL's consolidated scale of operations
- Expected improvement in its debt coverage ratios over the near to medium term
- Presence of debt service reserve accounts (DSRA) for the new loans
- Strong business profile, with high quality of assets, favourable project locations, reputed tenant profile and consistently high occupancy levels
- Corporate guarantees for the rated loans from RMZ Infotech Private Limited

Credit Weakness
- RIPL's high level of leveraging through rental securitisation loans and the moderate cover of rental inflows over debt servicing requirements
- Back-ended principal amortisation structure in certain loans will expose the company to refinancing risk
- Private equity (PE) investors have to be provided an exit through IPO / real estate investment trust (REIT) listing by 2017
- Proposed acquisitions will increase the leverage levels along with the construction and market risks on a consolidated basis

Description of Key Rating Drivers Highlighted Above:
During FY2016, RIPL saw stabilization of rental income from 3.0 million square feet (msf) of recently completed commercial office space. In addition, RIPL acquired 1.4 msf of completed and fully-leased out office space during the year, thereby taking its portfolio of completed development to 10.6 msf, with an overall occupancy level of more than 98%. RIPL receives annual rental income of around Rs 700 crore from the developed area along with its associated maintenance charges. The under-construction area of 2.5 msf in the Ecoworld project (being developed in REIPL) in Bangalore is expected to start generating rental income within the next 6 months, thereby increasing RIPL's annual rental potential to around Rs 880 crore.

RIPL is also refinancing a large share of its rental securitisation loans with new loans that have back-ended repayment structures and lower interest costs. This will improve the company's debt coverage ratios in the near to medium term, albeit with increased exposure to refinancing risk. The presence of debt service reserve accounts (DSRA) for the new loans will also support the liquidity profile of RIPL and help in absorbing short-term cash flow mismatches, if any.

ICRA further notes that the private equity (PE) investors have to be provided an exit through IPO / real estate investment trust (REIT) listing by 2017, subject to compliance with applicable SEBI regulations on leverage levels, development portfolio, etc. Moreover, as per RIPL's agreement with the PE investors, in certain scenarios it is possible that RIPL may have to provide an exit to the investors through sale of assets. Nonetheless, the rating draws comfort from the fact that sale proceeds would be first utilised for repayment of the outstanding debt; with a stipulated floor on the sale price, there is sufficient margin to repay current debt outstanding.

In FY2014, RIPL received equity infusion of USD 100 mn from Qatar Investment Authority (QIA), which now holds 25% of the company's equity shares. QIA is also the investor in the rated NCD. The proceeds from the equity infusion are to be used to support expansion of RIPL's portfolio of large-format commercial office assets. In FY2016, RIPL acquired three properties with an aggregate area of 1.4 msf, which was part funded by the equity proceeds. RIPL has also drawn up a pipeline of proposed acquisitions with total development potential (including share of joint venture partners) of 5.4 msf, of which only 1.5 msf is already constructed; hence, the construction risk associated with the acquisition portfolio is higher than ICRA's earlier expectations. Nonetheless, on the consolidated RIPL portfolio, less than 25% of the area will be under construction post the acquisitions. Funding for the acquisitions will be through a mix of equity raised earlier from QIA, top-ups on the rental securitisation loans, and profits from the sale of a 0.8 msf building in Ecoworld project. The realisation of top-ups on rental securitisation loans is dependent on the timely completion of leasing activities and refinancing in the under-construction assets in REIPL. In addition, construction finance loans would be availed to fund the future development in the acquired projects. ICRA notes that the proposed acquisitions will increase the leverage levels along with the construction and market risks on a consolidated basis. Nonetheless, ICRA draws comfort from RMZ Group's established and leading position as a commercial property developer, and its strong relationship with reputed clientele; and the same would assist RIPL in managing the construction and market risks to some extent. Moreover, the payments for the acquisitions are also structured in a staggered manner and linked to operational and regulatory milestones to be achieved by the seller(s). ICRA also notes that the acquisitions will help RIPL to diversify its geographical and tenant base; thereby enhancing its business profile ahead of the proposed REIT / IPO listing.

Analytical Approach:
While assigning the rating, ICRA has taken a consolidated view of RMZ Ecoworld Infrastructure Private Limited along with its parent company, RMZ Infotech Private Limited (RIPL, rated [ICRA]A+ with stable outlook), and its fellow subsidiaries on account of the strong operational and financial linkages between the entities.

The rating for Rs 870.00-crore construction finance term loans has been upgraded based on the strength of the corporate guarantees provided by RMZ Infotech Private Limited (RIPL, rated [ICRA]A+ with stable outlook) towards the aforementioned facilities. The letters SO in parenthesis suffixed to the rating symbol for these facilities stand for Structured Obligation. An SO rating is specific to the rated issue, its terms and its structure. SO ratings do not represent ICRA's opinion on the overall credit quality of the issuers concerned. The ratings address the servicing of the loans to happen as per the terms of the underlying loan and guarantee arrangements and the rating assume that the guarantees will be duly invoked in case there is a default in payment by the borrower. The rated instruments do not involve a structured payment mechanism.

The rating for the rental securitization term loans of Rs 2,190.42-crore has been reassigned on standalone basis, considering the stabilized operational profile and adequate coverage metrics for the rental securitization loans of REIPL on the back of healthy occupancies and rentals in its portfolio. While these facilities are also secured by corporate guarantee from RIPL, ICRA expects the dependence on corporate guarantee for timely servicing of these facilities to be low.

Links to Applicable Criteria
Corporate Credit Rating –A Note on Methodology
Rating Methodology for Debt Backed by Lease Rentals
Approach for Rating Debt Backed by Third Party Explicit Support

About the Company:
RMZ Ecoworld Infrastructure Private Limited (REIPL) belongs to RMZ Group of companies, one of the leading players in the commercial real estate segment in Bangalore. Formed in 1997, the group's activities are concentrated on the commercial office segment, largely in Bangalore. REIPL is a 100% subsidiary of RMZ Infotech Private Limited (RIPL), which is the flagship entity of the group. Around 53% of RIPL's equity is currently held by Millennia Realtors Private Limited (MRPL), while two PE investors hold the remainder of RIPL's equity - QIA holds 25% and Barings PE holds 22%.

Presently RIPL, on a standalone basis, has a portfolio of five completed office buildings aggregating to leasable area of 5 msf, which includes four projects in Bangalore (4 msf) and one project in Chennai (1 msf). These properties are 100% occupied as on date.

In July 2012, RIPL acquired 100% stake in REIPL (then known as Adarsh Prime Projects Limited). REIPL is developing a commercial office park spread over 52 acres located on Sarjapur-Marthahalli Outer Ring Road (ORR), Bangalore with a total development potential of 7.5 msf. It has 4.2 msf of constructed and leased commercial space, of which 3.0 msf was completed and handed over in FY2015 and FY2016, after take-over of REIPL by the RMZ Group. Further, the company has recently completed construction of 3.3 msf area where rentals will commence over the next 6 months. REIPL also bought 0.7 msf of completed office space in Pune and Chennai from MRPL in FY2016.

In FY2016, RIPL acquired a 100% stake in Vital Construction Private Limited (VCPL) through its wholly owned subsidiary, RMZ Infratech Private Limited. VCPL owns a 0.7 msf commercial office building in Gurgaon that is fully leased out. Following this acquisition, RIPL, on a consolidated basis, owns commercial office space with leasable area of 10.6 msf spread across Bangalore, Chennai, Pune and Gurgaon.

Based on provisional financials, RIPL (consolidated) reported a net profit of Rs 90 crore on an operating income of Rs 858 crore. In FY2015, RIPL (consolidated) reported a net loss of Rs 30 crore on an operating income of Rs 442 crore.

Status of Non-cooperation with Previous CRA: Not Applicable

Any Other Information: Not Applicable

Rating History:

Table: Rating History

Sl.No	**Name of Instrument**	**Current Rating**			**Chronology of Rating History for the Past 3 Years**					
		Type	**Rated amount (Rs. Crore)**	**Month-year and Rating**	**Month-year, Rated Amount (in Rs. Crore) and Rating**					
				January 2017	**March 2016**	**October 2015**	**June 2014**	**May 2014**	**March 2014**	**April 2013**
1	Term Loans	Long Term	2190.42	**[ICRA] A+ (Stable)**	[ICRA] A(SO) (Stable)	[ICRA] A(SO) (Stable)	[ICRA]A(SO) (Stable)	[ICRA]A(SO) (Stable)	[ICRA] A(SO) (Stable)	[ICRA] BBB (Stable)
2	Term Loans	Long Term	870.00	**[ICRA] A+(SO) (Stable)**	-	Prov [ICRA] A(SO) (Stable)	-	[ICRA]BBB (Stable)		[ICRA] BBB+ (SO) (Stable)

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

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size (Rs. Cr)	Current Rating and Outlook
Term Loan	2014	-	Mar-2026	421.94	[ICRA]A+ (Stable)
Term Loan	2016	-	Jun-2030	500.00	[ICRA]A+ (Stable)
Term Loan	2016	-	Nov-2027	530.00	[ICRA]A+ (Stable)
Term Loan	2016	-	May-2026	500.00	[ICRA]A+ (Stable)
Term Loan	2014	-	Mar-2026	238.48	[ICRA]A+ (Stable)
Term Loan	2016	-	Jan-2018	150.00	[ICRA]A+ (SO) (Stable)
Term Loan	2016	-	Jan-2018	125.00	[ICRA]A+ (SO) (Stable)
Term Loan	2016	-	May-2018	370.00	[ICRA]A+ (SO) (Stable)
Term Loan	2016	-	Jan-2018	225.00	[ICRA]A+ (SO) (Stable)
Total				**3060.42**	

Source: RMZ Ecoworld Infrastructure Private Limited.

ICRA

Name and Contact Details of the Rating Analyst(s):

Mr. K. Ravichandran
Tel. No. +91-44-4596 4301
ravichandran@icraindia.com

Mr. Shubham Jain
Tel. No. +91-124-4545 306
shubhamj@icraindia.com

Mr. Mathew Kurian Eranat
Tel. No. +91-80-4332 6415
mathew.eranat@icraindia.com

Name and Contact Details of Relationship Contacts:

Mr. L. Shivakumar
Tel. No. +91-022-6169 3300
shivakumar@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.
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For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	