

October 13, 2017

RMZ Infotech Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Term loans	1,289.10	Provisional [ICRA]AA-(SO) (Stable); reassigned from [ICRA]A+ (Stable)
NCD programme	640.0	[ICRA]A+ (Stable) withdrawn
Total	1,289.10	

*instrument details are provided in Annexure-1

Rating action

ICRA has reassigned the long-term rating assigned to the Rs. 1,289.10 crore¹ term loans of RMZ Infotech Private Limited (RIPL) from [ICRA]A+ (pronounced as ICRA A plus) to Provisional [ICRA]AA-(SO) (pronounced as Provisional ICRA double A minus structured obligation)². The outlook on the long-term rating is 'stable'.

ICRA has withdrawn the rating assigned to the Rs 640.00 crore NCD programme of RIPL as the instrument has been repaid in full. There is no amount outstanding against the rated instrument.

Rationale

While assigning the rating, ICRA has taken a consolidated view of RIPL and its wholly owned subsidiaries, including RMZ Ecoworld Infrastructure Private Limited (REIPL), on account of the strong operational and financial linkages between the entities.

The rating assigned to the term loans takes into account the commitment from the company to maintain liquidity support in the form of a common pool Debt Service Reserve Account (DSRA) covering six months of succeeding debt servicing installments at all points of time. Three months of DSRA will be created upfront and the remaining amount will be fully funded by March 2018. Given the diversity of RIPL's consolidated asset and tenant portfolio, ICRA expects that this arrangement would provide a strong cushion to absorb potential future liquidity mismatches under stress scenarios for extended periods. Further, the company has provided an undertaking (backed by board resolution) that it would restrict any distribution of cash to shareholders in the event of breach of certain operational and financial covenants including occupancy, gross rental income, cash DSCR and leverage levels. These covenants shall be monitored on a quarterly basis. The ratings assigned to the bank facilities are provisional and subject to creation of the DSRA, as mentioned above.

The rating continues to draw comfort from RIPL's strong portfolio of completed development with high occupancy levels, 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. The execution and leasing progress in the Ecoworld project of REIPL has been in line with ICRA's expectations, aided by buoyant market demand for Grade A commercial office space in Bangalore. 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.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications. An 'SO' rating is specific to the rated issue, its terms and its structure and 'SO' ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned.

RIPL's debt coverage metrics are moderate, aided by the long tenor and back-ended repayment structure for most of its loans. RIPL is also refinancing a large share of its rental securitisation loans with instruments having limited principal amortization. This will improve the company's debt coverage ratios further in the near to medium term and generate significant free cash flows, albeit with increased exposure to refinancing risk. These risks would be mitigated to some extent by the group's excellent track record in raising debt funding, as well as the structural features associated with such instruments, including event-linked trapping of cash flows, tail period in instrument tenor wherein the trustee will have enhanced rights to liquidate the property, if required, to repay the principal amounts.

The rating is, however, constrained by RIPL's high level of leveraging through rental securitisation loans - RIPL's gross debt level at end-FY2018 is projected to be around 6.7x of the rental income, limiting the financial flexibility of the company. Moreover, the back-ended principal amortisation structure in certain debt instruments 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 recently completed construction and acquisition activities, as required under accounting standards.

The rating is also constrained by the risks arising from RIPL's under-development portfolio resulting from the recent acquisitions in FY2017. RIPL has significant payments pending on certain identified acquisitions, which have been part-funded through top-ups on lease rental loans, resulting in the high leverage levels. The acquisition portfolio has total development potential of 5.4 msf, of which only 1.5 msf is already constructed; hence, the construction risk associated with the acquisition portfolio is significantly high. Nonetheless, on the consolidated RIPL portfolio, less than 25% of the area will be under construction post the acquisitions. 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).

Going forward, RIPL's ability to maintain occupancy levels in its completed portfolio and manage the execution and market risks associated with the development portfolio would be the key rating sensitivities. Moreover, timely refinancing of debt portfolio as per the plans indicated by the management will also be a key monitorable.

Key rating drivers

Credit strengths

- **Strong portfolio of completed commercial real estate assets** – RIPL currently has a portfolio of 13.1 msf of completed development, with an overall occupancy level of more than 98%. The under-construction buildings of 2.5 msf in REIPL were completed during FY2017 and rentals are expected to stabilize over FY2018, resulting in projected rental income of around Rs 940 crore for FY2019.
- **Track record of the group in development and leasing** – RMZ Group is among the largest commercial real estate developers in the country with presence across major cities like Bangalore, Chennai, Pune and Gurgaon. It has demonstrated strong project execution, leasing and asset management track record resulting in robust business risk profile.

- **Debt refinancing plans to improve debt coverage metrics and free cash flows** – RIPL is refinancing a large share of its rental securitisation loans with instruments having limited principal amortization. This will improve the company's debt coverage ratios further in the near to medium term and generate significant free cash flows, albeit with increased exposure to refinancing risk.
- **Liquidity profile enhanced by 6 months of debt service reserve account** – RIPL will maintain liquidity support in the form of a common pool debt service reserve account (DSRA) covering six months of succeeding debt servicing installments at all points of time. Given the diversity of RIPL's consolidated asset and tenant portfolio, ICRA expects that this arrangement would provide a strong cushion to absorb liquidity mismatches under stress scenarios for extended periods. There will be restriction on distribution of cash to the shareholders in the event of breach of specified operational and financial covenants, which can also support the liquidity profile under such adverse scenarios.

Credit weaknesses

- **High leverage restricts financial flexibility** – RIPL has high level of leveraging through rental securitisation loans, largely resulting from the top-ups which have been taken to support the various acquisitions concluded during FY2016 and FY2017 and proposed for FY2018. Based on the acquisition plan finalized, RIPL's gross lease rental discounting debt level at end-FY2018 is projected to be around 6.7x of the rental income.
- **High refinancing risk due to reliance on instruments with limited amortization** – The amortization schedule and maturity profile of RIPL's debt portfolio will result in increased exposure to refinancing risk. Moreover, the ability to periodically refinance them with credit lines that have similar amortisation structure is critical to maintain the debt coverage ratios.
- **Execution and market risks relating to the development portfolio** – The acquisition portfolio has total development potential of 5.4 msf, of which only 1.5 msf is already constructed; hence, the construction risk associated with the acquisition portfolio is significantly high. In addition, construction finance loans would be availed to fund the future development in the acquired projects.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Debt Backed by Lease Rentals](#)

[Approach for rating debt instruments supported by structural features \(Non-securitized transactions\)](#)

[ICRA's procedure to assign provisional ratings](#)

About the company:

RIPL belongs to the RMZ Group of companies, one of the leading players in the commercial real estate segment in Bangalore. Beginning in 1997, the group's activities are concentrated on the commercial property (office) segment largely in Bangalore; other locations where the RMZ Group has completed projects include Pune, Kolkata, Chennai and Hyderabad. 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%.

RIPL currently has a portfolio of completed commercial office space aggregating to 13.1 msf of which 5.0 msf is owned by RIPL and the rest by its wholly owned subsidiaries, REIPL and Vital Construction Private Limited. RIPL will be undertaking development of close to 4.4 msf of office space through certain other subsidiaries that it has acquired during FY2017. On completion of all the planned acquisitions and development activities, RIPL will have a consolidated leasing portfolio of 19.0 msf by FY2021.

Key financial indicators

RIPL – Standalone	FY2016	FY2017
Operating Income (Rs. crore)	354	367
Profit After Tax (Rs. crore)	54	28
Operating Profit Margin (%)	80.7%	75.1%
RoCE (%)	10.1%	7.9%
Total Debt/ Tangible Net Worth (times)	1.15	1.25
Total Debt/ OPBDIT (times)	6.28	7.12
Interest coverage (times)	1.06	1.16
NWC/ OI (%)	3%	-14%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating			Chronology of rating history		
		Type	Amount Rated (Rs crore)	Amount Outstanding (Rs Crore)	FY2018	FY2017	FY2016
					October 2017	December 2016	August 2015
1	Term loans	Long Term	1,289.1	1,289.1	Provisional [ICRA]AA-(SO) (Stable)	A+ (Stable)	A (Stable)
2	NCD	Long Term	640.0	-	Withdrawn	A+ (Stable)	A (Stable)

Complexity level of the rated instrument: Complex

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
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Not applicable	Term loan	-	-	Sept 2029	700.00	Provisional [ICRA]AA-(SO) (Stable)
Not applicable	Term loan	-	-	Dec 2028	230.00	Provisional [ICRA]AA-(SO) (Stable)
Not applicable	Term loan	-	-	Jan 2025	359.10	Provisional [ICRA]AA-(SO) (Stable)

Source: RIPL

Contact Details

Analyst Contacts

K Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Shubham Jain

+91 124 4545 306

shubhamj@icraindia.com

Mathew Kurian Eranat

+91 80 4332 6415

mathew.eranat@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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.

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**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