

RGA Software Systems Private Limited

December 10, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – term loan	680.84	680.84	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Total	680.84	680.84	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade takes into account the full repayment of the construction loans availed by RGA Infrastructure (RGA Infra), a partnership firm where RGA Software Systems Private Limited (RGA) has 63% economic interest. The prepayment of the relatively shorter tenure loans has reduced the funding pressure on RGA, which had provided corporate guarantees towards these loans. RGA has also refinanced some of the earlier loans with new lease rental discounting (LRD) loans at lower interest rates and extended maturity profile, resulting in improved debt coverage indicators.

The rating continues to derive comfort from the moderate leverage in RGA's balance sheet, which provides significant financial flexibility. The rating also takes into account the established operating profile of RGA's assets, including their favourable location, healthy occupancy levels and reputed tenant base. The projects of RGA are located in Bellandur, Outer Ring Road and Electronic City. Both the locations have experienced healthy demand for commercial office space in Bangalore. Consequently, both the projects have close to 100% occupancy as on date. The rating also draws support from the track record and experience of the promoters of RGA in the commercial real estate sector and established relationships with reputed tenants.

The rating is, however, constrained by the vulnerability of debt coverage ratios to factors such as changes in interest rates, TDS rates or reduction in occupancy levels. The rating considers the lack of escrow mechanism in most of the LRD loans or liquidity support in the form of debt service reserve account (DSRA) which can provide support in case of any short-term cash flow mismatches. Hence, timely debt servicing would hinge upon the company's ability to maintain the timeliness of rental collections and internal financial discipline. ICRA however draws comfort from RGA's reputed client base and its track record of timely debt servicing. The rating takes into account the moderate customer concentration risk with top three customers occupying around 37% of the total developed space and lock-in periods having expired in most of the leases.

ICRA also takes note of the increase in standalone debt of RGA, as the company had availed top-up at the time of refinancing its LRD loans; the surplus amounts were used to fully repay bank borrowings in RGA Infra and Pritech Projects, which are partnership firms where majority interest is held by RGA. Notwithstanding the increase in debt, RGA's capital structure remains comfortable; moreover these firms, which generate healthy cash flows from operations and have no external debt, are expected to pay interest on the incremental investments received from RGA at 8.6% per annum.

Going forward, the company's ability to maintain timely receipt of rentals and remittances of debt obligations and the extent of capital expenditure or investments in other real estate developments in the group will be the key rating sensitivities.

Outlook: Stable

ICRA believes that the company's operational and financial risk profile will be supported in the near-to-medium term by healthy occupancy levels and reputed tenant base in the leased office assets. The outlook may be revised to Positive in case of higher-than-expected growth in the rental income, resulting in higher operational cash flows. The outlook may be revised to Negative in case of any unexpected prolonged vacancies in the leased assets or higher-than-estimated capital expenditure or investments in other real estate developments in the group which is funded through additional debt.

Key rating drivers

Credit strengths

Track record of the promoters and group in commercial real estate business: RGA is one of the reputed real estate developers in the commercial real estate segment in Bangalore, with strong operating portfolio of commercial assets. This supports the company's growth prospects in the near to medium term.

Established operating profile with favourable location, healthy occupancy levels and reputed customer base: The company has so far completed four projects in Electronic City (Surya - I, II, III & IV; together admeasuring 0.84 msf) and two projects in Bellandur, Outer Ring Road (Pritech - I & II; together admeasuring 2.77 msf). Both the locations, where the company's projects are located, have evolved as IT corridors of Bangalore. Despite a large number of competing IT parks, the occupancy has remained close to 100% in the operational assets on account of the property's attractiveness as well as the overall buoyancy in leasing activity in the Bangalore market.

Strong financial flexibility and debt service coverage ratios due to moderate level of leveraging: RGA has LRD loans outstanding of Rs 915 crore as on September 2018, which have been raised against the rental income from the Surya and Pritech properties. Leveraging in the form of LRD loans is comfortable given that it is around 4.1x of the annual rental income and provides financial flexibility to the company. The coverage metrics, including cash flow cover, are expected to remain adequate throughout the tenure of the rated debt. The company is also entitled to its share of profits from the partnership firms which are debt free as on date, resulting in improved financial flexibility.

Credit challenges

Absence of escrow account and DSRA: The company does not maintain escrow account for most of the existing LRD loans or liquidity support in the form of a debt service reserve account. In the absence of these facilities, timely debt servicing would hinge on the company's ability to maintain the timeliness of rental collections and internal financial discipline. ICRA, however, draws comfort from RGA's reputed client base and its track record of timely debt servicing.

Moderate customer concentration risk: RGA is exposed to moderate customer concentration risk with top three customers occupying about 37% of the aggregate developed space. If each of the projects is considered separately, the concentration risks are higher in the Surya blocks and Pritech Phase I. Moreover, as lock-in periods have expired in most of the leases, RGA is also exposed to market risks to some extent. However, these risks are partly mitigated by the reputed lessee profile, RGA group's demonstrated leasing track record and the investments made in fitouts by the tenants, which acts as an exit barrier. Accenture, which occupies 61% area in Pritech I has entered into long-term lease contract of 20 years, thereby reducing the market risk.

Liquidity Position:

Liquidity position of the company is supported by undrawn LRD debt and overdraft facility of Rs. 193 crore and Rs. 56 crore respectively as on September 2018. The company also derives financial flexibility on account of moderate debt to rental ratio of around 4.1x for the LRD loans which provides sufficient cushion to raise additional LRD debt if required.

Also, the company is also entitled to its share of profits from the partnership firms which are debt free as on date, resulting in improved financial flexibility.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals
Parent	N.A.
Standalone	For arriving at the ratings, ICRA has analysed the standalone operational and financial profile of RGA.

About the company

RGA Software Systems Private Limited (RGA), established in 2000, is primarily into the development of office space in Bangalore. The company has so far completed four projects in Electronic City (Surya- I, II, III & IV) and two projects in Bellandur, Outer Ring Road (Pritech-I & II); together admeasuring 3.56 msf. The projects of the company are almost completely occupied as on date. The key tenants in these properties are Accenture, Hewlett Packard, HCL and First Source among others. RGA has equity investments in three group entities which have developed commercial real estate projects in Bangalore with total leasable area of 3.03 msf.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	257.0	271.6
PAT (Rs. crore)	58.8	66.4
OPBDIT/ OI (%)	71.3%	66.4%
RoCE (%)	28.1%	19.8%
Total Debt/ TNW (times)	3.4	4.9
Total Debt/ OPBDIT (times)	3.1	5.6
Interest Coverage (times)	2.9	3.1

Source: company, ICRA; **OPBDITA:** Operating Profit before Depreciation, Interest, Taxes and Amortisation; **PAT:** Profit after Tax; **NWC:** Net Working Capital; **TNW:** Tangible Net Worth; **RoCE:** Return on Capital Employed; **OI:** Operating Income;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Sl. No	Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					December 2018	July 2017	May 2016	-
1	Term loans	Long term	680.84	914.76 #	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-

As on September 2018

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loans	FY2017-FY2019 @	-	FY2028 &	680.84	[ICRA]A- (Stable)

@ Represents loans sanctioned between FY2017 and FY2019

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

Source: RGA Software Systems Private Limited

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