

## RMZ Infotech Private Limited

December 13, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	1,929.10	1,396.68	[ICRA]A+ (Stable); reassigned from Provisional [ICRA]AA-(SO) (Stable)
Unallocated	-	532.42	
Long term bonds	550.00	550.00	[ICRA]A1+; reassigned from Provisional [ICRA]A1+(SO)
Short term NCD	750.00	750.00	
<b>Total</b>	<b>3,229.10</b>	<b>3,229.10</b>	

\*Instrument details are provided in Annexure-1

### Rationale

While assigning the rating, ICRA has taken a consolidated view of RMZ Infotech Private Limited (RIPL) and its subsidiaries – RMZ Ecoworld Infrastructure Private Limited (REIPL), RMZ Azure Projects Private Limited and RMZ Infinity (Chennai Limited) - on account of the strong operational and financial linkages between the entities. The ratings have been reassigned as the company has revised its debt financing plans as a result of which the total debt in RIPL and REIPL is expected to be higher than the limits considered earlier. The earlier SO ratings took into account the company's undertaking to maintain certain operational and financial covenants including occupancy, gross rental income, debt service reserve balances and debt levels

The ratings continue 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, and the group's track record in maintaining high occupancy levels in its properties. With the completion of leasing in Ecoworld project of REIPL during FY2018, the lease income of RIPL on consolidated basis is expected to stabilise at around Rs 950 crore during FY2019. RIPL's assets are spread across multiple cities including Bangalore, Chennai, Pune and Gurgaon, with moderate tenant concentration. Moreover, the average rent rates in RIPL's consolidated portfolio remains significantly lower than the market rates, which should support healthy growth in income over the medium to long term as rentals gradually align with market rates. RIPL's debt coverage metrics are moderate, aided by the long tenor and back-ended repayment structure for most of its loans. Many of the loans are backed by DSRA of 2-3 months of debt instalments, apart from the comfortable liquidity maintained at the company level which is earmarked towards supporting debt servicing.

The rating is, however, constrained by RIPL's high level of leveraging through rental securitisation loans - RIPL's gross debt level as on date is around 6.7x of the projected rental income for FY2019. While the debt outstanding is in line with ICRA's earlier expectations, it is expected to increase in the near term as RIPL and REIPL will raise additional loans, which will reduce equivalent amount of group level debt. Moreover, the back-ended principal amortisation structure and relatively short tenor in certain debt instruments will require timely refinancing of these instruments; nonetheless, the rating draws comfort from the group's established track record of timely refinancing and the expected growth in rentals in the near to medium term, which will support the refinancing ability. 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 development portfolio through wholly owned subsidiaries, which have total development potential of 9.3 msf, of which 0.3 msf is already constructed and 3.1 msf is under active development. Construction finance loans would be availed to fund the future development in the acquired projects,

which will increase the leverage at the group level. 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.

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, the extent of future debt being raised by RIPL and REIPL will also be a key monitorable.

## Outlook: Stable

ICRA believes that RIPL and REIPL will continue to benefit from their large portfolio of stable, rent-generating assets. The group is also in the process of raising equity of up to Rs 2,500 crore through stake dilution in identified projects, which can help in reduction of the debt at the group level. The outlook may be revised to 'Positive' if there is faster-than-expected completion and leasing of under-construction assets or reduction in leverage levels. The outlook may be revised to 'Negative' if there is material reduction in occupancy level in the completed portfolio or if the leverage increases significantly from the current levels due to delay in equity raising.

## 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 on a consolidated basis, with an overall occupancy level of more than 98%. Buildings with leasable area of 2.5 msf in REIPL were completed during FY2017 and rentals have stabilised over FY2018, resulting in projected rental income of around Rs 950 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.

**Moderate debt coverage metrics** – RIPL's debt coverage metrics are moderate, aided by the long tenor and back-ended repayment structure for most of its loans. Many of the loans are backed by DSRA of 2-3 months of debt instalments, apart from the comfortable liquidity maintained at the company level which is earmarked towards supporting debt servicing; such liquidity including DSRA balances cover more than 4 months of debt servicing obligations.

### Credit challenges

**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 going forward. RIPL's gross debt level as on date is around 6.7x of the projected rental income for FY2019. Nonetheless, the significant gap between current rent rates and market rates provides scope for rental income to appreciate in the near to medium term, thereby reducing the multiple of debt over rental income. The management estimates that the rentals on the existing assets would grow at a CAGR of 8% over the next 5 years.

While the debt outstanding is in line with ICRA's earlier expectations, the group has availed additional debt to buy the stake of PE investors in RIPL and consolidate promoter's shareholding in the portfolio of RIPL and REIPL. RIPL and REIPL are likely to avail additional debt which will reduce equivalent amount of the group level debt.

**Refinancing risk due to reliance on instruments with limited amortization** – The amortization schedule and maturity profile of certain loans in 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. Nonetheless, the rating draws comfort from the group’s established track record of timely refinancing and the expected growth in rentals in the near to medium term, which will support the refinancing ability.

**Execution and market risks relating to the development portfolio** – The acquisition portfolio has total development potential of 9.3 msf, of which only 0.3 msf is already constructed and 3.1 msf is under active development; 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. However, in the long term ICRA expects that the group’s established operational profile will enable timely completion and stabilization of operations in these assets, which can further support the financial risk profile of RIPL.

### Liquidity position:

RIPL and REIPL have comfortable liquidity profile owing to stable and predictable monthly rental collections and adequate coverage ratios on the associated debt. The high tenant diversity and asset quality mitigate the risks of cash flow mismatches due to drop in occupancy levels. The liquidity profile is further augmented by high cash and bank balances maintained by the two companies. As on date, the companies have around Rs 105 crore in the form of DSRAs under lien to the lenders and Rs 175 crore of bank balances which are earmarked for the purpose of supporting debt servicing, if required. ICRA expects the company to maintain such prudent liquidity practices going forward also.

### 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>
Parent/Group Support	Not applicable
Consolidation / Standalone	RIPL has been consolidated along with three of its subsidiaries – REIPL, RMZ Azure Projects Private Limited and RMZ Infinity (Chennai) Limited. These are the three subsidiaries of RIPL which have completed or under-development projects. However, the following entities have been excluded from the consolidated financials because we expect RIPL not to provide unconstrained financial support to them. The entities are Abhishaya Infrastructure Private Limited and RMZ Consultancy Services Private Limited.

### About the company:

REIPL 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. REIPL is a wholly owned subsidiary of RMZ Infotech Private Limited (RIPL). RIPL in turn is wholly owned by the Menda family through their holding companies, Millennia Realtors Private Limited and RMZ Infotech Pune Private Limited.

RIPL currently has a portfolio of completed commercial office space aggregating to 13.1 msf of which 5.7 msf is owned by RIPL and the rest by REIPL. RIPL will be undertaking development of close to 9.6 msf of office space through certain other

subsidiaries. On completion of all the planned acquisitions and development activities, RIPL will have a consolidated leasing portfolio of 23.0 msf by FY2022.

### Key financial indicators (audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	367	480
PAT (Rs. crore)	28	30
OPBDIT/ OI (%)	75.1%	69.9%
RoCE (%)	7.9%	10.0%
Total Debt/ TNW (times)	1.25	1.52
Total Debt/ OPBDIT (times)	7.12	6.46
Interest coverage (times)	1.16	1.26
NWC/ OI (%)	-14%	-50%

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

**Any other information: None**

### Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Dec-2018	FY2019		FY2018		FY2017
					Oct-2018	Jun-2018	Dec-2017	Oct-2017	Dec-2016
1 NCD	Short Term	750.00	750.00	[ICRA]A1+	Provisional [ICRA]A1+ (SO)	Provisional [ICRA]A1+ (SO)	-	-	-
2 Term Loan	Long Term	1,396.68	1,396.68	[ICRA]A+ (Stable)	Provisional [ICRA]AA- (SO) (Stable)	Provisional [ICRA]AA- (SO) (Stable)	Provisional [ICRA]AA- (SO) (Stable)	Provisional [ICRA]AA- (SO) (Stable)	[ICRA]A+ (Stable)
3 Bonds	Long Term	550.00	550.00	[ICRA]A+ (Stable)	-	-	-	-	-
4 Unallocated	Long Term	532.42	-	[ICRA]A+ (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](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
INE485H07025	NCD	FY2019	9.31%	Apr-2019	750.00	[ICRA]A1+
n.a.	Term loan	FY2017	-	Sept-2029	641.42	[ICRA]A+ (Stable)
n.a.	Term loan	FY2016	-	Dec-2028	205.55	[ICRA]A+ (Stable)
n.a.	Term loan	FY2013	-	Jan-2025	352.47	[ICRA]A+ (Stable)
n.a.	Term loan	FY2018	-	Apr-2030	197.24	[ICRA]A+ (Stable)
INE345W07020	Bond	May-2017	9.5%	Jul-2020	550.00	[ICRA]A+ (Stable)

Source: RIPL

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
RMZ Ecoworld Infrastructure Private Limited	100%	Full consolidation
RMZ Azure Projects Private Limited	100%	Full consolidation
Abhishaya Infrastructure Private Limited	100%	Limited consolidation
RMZ Consultancy Services Private Limited	100%	Limited consolidation
RMZ Infinity (Chennai) Limited	100%	Full consolidation

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## 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.

For more information, visit [www.icra.in](http://www.icra.in)

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