

## RMZ Infotech Private Limited

April 22, 2019

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	1,289.10	1,289.10	[ICRA]A (Stable); outstanding
Long term bonds	550.00	550.00	
Short term NCD	750.00	-	[ICRA]A1; withdrawn
<b>Total</b>	<b>2,589.10</b>	<b>1,839.10</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has withdrawn the rating assigned to the Rs 750 crore short term NCD programme of RMZ Infotech Private Limited (RIPL) at the request of the company as the debentures have been fully redeemed. ICRA continues to have rating outstanding for the long-term instruments of RIPL.

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) - because of the strong operational and financial linkages among the entities. References to the RMZ Group or the Group include other operating companies and holding companies owned by the promoter family.

The rating draws comfort from RIPL's strong consolidated portfolio of completed development with high occupancy levels, the favourable location of its projects, reputed tenant profile, and the group's track record in maintaining high occupancy levels in its properties. With the Ecoworld project of REIPL completely leased out in FY2018, the lease income of RIPL on consolidated basis is expected to stabilise at around Rs 950 crore in 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 is 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. Many of the loans are backed by debt service reserve accounts (DSRA) covering two-three months of debt instalments. Moreover, the additional loans to be availed by RIPL and REIPL will also be supported by similar DSRA amounts.

The rating is constrained by the increasing leverage in RIPL and REIPL, as the Group intends to raise additional debt in these companies to reduce equivalent amount of debt in Group companies, which was availed to buy the stake of PE investors in RIPL. RIPL and REIPL are now expected to have a total gross debt of Rs 8,750 crore by FY2020, which will result in high leverage and modest debt coverage metrics. The impact of the increased debt on the coverage metrics is moderated to some extent by the long tenure (14-15 years) of majority of the new loans to be raised. Certain debt facilities have medium tenure and back-ended repayment structure, which will result in refinancing risk. 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 risks associated with the increase in debt are partly offset by the Group's plans to raise equity of up to Rs 2,500 crore through stake dilution in identified projects. The progress in the equity dilution events and the resultant reduction in debt levels will be closely monitored.

The rating is also constrained by the risks associated with RIPL's development portfolio through wholly owned subsidiaries, which have total development potential of 9.3 million square feet (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, thereby increasing leverage at the consolidated 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 a key rating sensitivity. Moreover, the extent of future debt being raised by RIPL and the reduction in group level debt through various equity transactions under discussion 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 reduce 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 a 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 in FY2017 and rentals stabilised in FY2018, resulting in projected rental income of around Rs 950 crore for FY2019. The average rent rates in RIPL's consolidated portfolio remains significantly lower than the market rates, which should support healthy income growth over the medium to long term as rentals gradually align with market rates.

**Group's track record in development and leasing** – RMZ Group is among the largest commercial real estate developers in the country with presence across major cities such as Bangalore, Chennai, Pune and Gurgaon. It has demonstrated strong project execution, leasing and asset management track record resulting in robust business risk profile.

**Liquidity support through DSRA:** The debt in RIPL and REIPL are entirely in the form of rental securitisation loans. The rent receivables are paid into escrow accounts charged to the lenders. In addition, majority of the loans carry DSRA covering two-three months of debt servicing due. The management will maintain similar amount of DSRA for the new loans to be availed.

### Credit challenges

**High leverage restricts financial flexibility** – RIPL and REIPL are expected to increase the total lease rental securitisation loans to around Rs 8,750 crore over the near term. The incremental debt will reduce certain debt that the Group has availed to buy the stake of PE investors in RIPL and consolidate the promoter's shareholding in the portfolio of RIPL and REIPL. The increase in debt will result in high leverage and modest debt coverage metrics. The impact of the increased debt on the coverage metrics is moderated to some extent by the long tenure (14-15 years) of the majority of the new loans to be raised. The balance acquisition debt at the Group level is also currently supported by surpluses from RIPL and REIPL after meeting their senior debt obligations.

**Refinancing risk due to reliance on instruments with limited amortisation** – The amortisation 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 related to development portfolio** – RIPL has a 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 development portfolio is significantly high. However, in the long term ICRA expects that the Group’s established operational profile will enable timely completion and stabilisation of operations in these assets, which can further support the financial risk profile of RIPL. Moreover, the pre-leasing pipeline during the construction stage has been strong, which supports future revenue visibility.

### 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 the loan specific debt service reserve accounts maintained by the company (two-three months of subsequent instalments) totalling to Rs 133 crore, with such DSRA support expected for the incremental loans to be availed too. ICRA expects the company to maintain such prudent liquidity practices.

### 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 that 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:

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. RIPL is wholly owned by the Menda family through its holding companies, Millennia Realtors Private Limited and RMZ Infotech Pune Private Limited.

At present, RIPL 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)	1,056	1,026
PAT (Rs. crore)	33	3
OPBDIT/ OI (%)	66%	70%
RoCE (%)	11%	10%
Total Debt/ TNW (times)	3.7	3.8
Total Debt/ OPBDIT (times)	9.3	9.3
Interest coverage (times)	1.3	1.2

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

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years						
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	FY2019				FY2018		FY2017
				Apr-2019	Feb-2019	Dec-2018	Oct-2018	Jun-2018	Dec-2017	Oct-2017	Dec-2016
1	NCD	750.00	-	Withdrawn	[ICRA]A1	[ICRA]A1+	Provisional [ICRA]A1+(SO)	Provisional [ICRA]A1+(SO)	-	-	-
2	Term loans	1,289.10	1,289.10	[ICRA]A (Stable)	[ICRA]A (Stable)	[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	550.00	550.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Stable)				-	-
4	Unallocated	-	-	-	[ICRA]A (Stable)	[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
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:

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