

May 10, 2019

RMZ Galleria India Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	410.0	300.0	[ICRA]BBB- (Stable); reaffirmed
Long-term Unallocated	-	110.0	[ICRA]BBB- (Stable); reaffirmed
Total	410.0	410.0	

Rationale

While assigning the rating, ICRA has taken a consolidated view of RMZ Galleria India Private Limited (RGIPL) along with its parent company, Millennia Realtors Private Limited (MRPL) and fellow subsidiary, RMZ North Star Projects Private Limited (RNSPPL) due to the strong financial and operational linkages.

The rating reaffirmation factors in the established track record and the reputation of the RMZ Group in the real estate sector, especially in the commercial office space development segment. Millennia Realtors Private Limited (MRPL), as the holding company of the group, has demonstrated financial flexibility, aided by its established relationship with lenders and the valuation of its investments in operational companies such as RMZ Infotech Private Limited (RIPL, rated [ICRA]A (Stable)) and Divija Commercial Properties Private Limited (rated [ICRA]BBB+ (Positive)). In addition, MRPL has investments in Prestige City Properties and Akarshak Infrastructure Private Limited, which are developing office properties in prime locations in Bangalore. The company has been able to refinance its project debt, resulting in lower interest costs and extended moratorium. The rating also factors in the favourable terms of the rated loans by way of presence of an escrow mechanism and ring fencing of cash flows along with one to three month's interest as debt service reserve account (DSRA).

The rating, however, is constrained by the high leverage in MRPL's leased assets, which has led to modest coverage of the rental income over the debt servicing obligations in this segment. As a result, MRPL remains vulnerable to delays in rent remittances by tenants, reduction in occupancy levels and changes in interest and TDS rates. Leasing tie-ups are yet to be completed for over 80% of the leasable area in North Star project (completed), exposing the company to market risks. The company has been able to achieve 90% leasing in the Galleria Mall but the rentals are yet to stabilise in the property. The rating is also constrained by the weak sales in the residential project portfolio; the risks are further exacerbated by the concentration of residential portfolio in the premium segment, where the sales velocity has remained relatively slow. The rating is also constrained by the high contingent liabilities of MRPL, which has extended significant corporate guarantees (outstanding of over Rs 4,125 crore as on March 2019) for the borrowings by its subsidiaries and associates, apart from the debt in RMZ Galleria (India) Private Limited (RGIPL) and RMZ North Star Projects Private Limited (RNSPPL). Nonetheless, ICRA notes that most of the corporate guarantees are to entities rated higher or having adequate future cash flow prospects such that their dependence on MRPL is likely to remain low.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that the company's operational and financial risk profile will remain moderate because of the Group's track record of successful implementation of commercial real estate projects through its subsidiaries and associates. The outlook may be revised to Positive if the company is able to ramp up rentals in Galleria mall and North Star, resulting in healthy debt coverage indicators, and achieve significant improvement in sales momentum in the residential projects, leading to meaningful reduction in debt levels. The outlook may also be revised to Positive if there is material deleveraging at the group level through various equity raising transactions and stake dilutions in operational SPVs of the Group. The outlook may be revised to Negative if there is significant delay in start of rentals and tie-up of the balance leases or slow progress in sales and collections in the residential projects. Increase in extent of investments / corporate guarantees towards new projects will also be a credit negative.

Key rating drivers

Credit strengths

Established track record and reputation of RMZ Group: The RMZ Group has an established track record and reputation in the real estate sector of Bengaluru, especially in the commercial office space development segment. The RMZ Group has completed the development of commercial office space, measuring over 18 million square feet (msf) with assets spread across the cities of Bengaluru, Pune, Kolkata, Chennai and Hyderabad. MRPL, apart from being the holding company of the Group, currently operates two office properties (The Millenia, Ecozen). RGIPL operates Galleria Mall and RNSPPL operates one office property. The Millenia is leased out to high quality tenants, resulting in stable cash flows. Leasing is complete for 88% of the area in Galleria Mall; however, rentals are yet to stabilise on account of the recent commissioning. The leasing for the office property North Star is in the initial stages with tie-ups complete for only 16% of the leasable area.

Demonstrated financial flexibility: MRPL's financial flexibility is aided by its established relationship with lenders and the valuation of its investments in various operational subsidiaries and associates, including RIPL (13.1 msf completed and 9.6 msf under development) and Divija Commercial Properties Private Limited (1.9 msf completed, MRPL share). In addition, MRPL has investments in Prestige City Properties (PCP, 0.7 msf under MRPL share) and Akarshak Infrastructure Private Limited (2.6 msf), which are developing office properties in prime locations in Bangalore. The valuation of MRPL's stake in DCPPL and PCP has increased significantly due to the progress achieved in construction and leasing of these assets over the last year.

Refinancing of project loans with presence of escrow mechanism, with additional comfort in form of DSRA: MRPL has been able to refinance its project debt, resulting in lower interest costs and extended moratorium. Presence of an escrow mechanism for all the rated loans, which prioritises debt repayment before any other utilisation, along with one to three month's interest as DSRA provides cushion for debt servicing.

Credit challenges

High leverage in leased assets: MRPL at present has two commercial properties in Bengaluru—The Millenia and the Ecozen. Overall, the occupancy levels are expected to remain high (over 98%) given the high-quality construction/maintenance, favourable location of the projects and MRPL's demonstrated ability to re-lease space across its projects. Nonetheless, MRPL is exposed to vacancy risk, given the expiry of the lock-in period for most of the leases. MRPL has availed LRD loans with high leverage against the rental income from The Millenia and Galleria mall, restricting its financial flexibility; nonetheless, coverage ratios are adequate on account of the long tenure of the loans.

Low sales velocity in residential projects: The sales in the residential projects – Latitude and Sawaan – has been weak on account of the high-ticket price per unit, in the backdrop of sluggish demand for luxury segment residential sales over the last couple of years. Nonetheless, the completion and hand over of these projects in H2FY2018 has resulted in some pick up in sales velocity in these projects and the inventory is expected to be liquidated over the next three years.

Extension of significant investments and guarantees to upcoming projects: In addition to the operational assets, MRPL has investments in companies developing commercial properties in Hyderabad and Bengaluru, which are in various stages of development. MRPL has extended significant corporate guarantees, amounting to Rs 4,125 crore to the borrowings under its subsidiaries and associates, excluding RGIPL and RNSPPL, as on March 31, 2019. MRPL has an outstanding guarantee of Rs 2,931 crore as on March 31, 2019 towards the loans taken against shares in RMZ Estates Private Limited (REPL, rated [ICRA]BBB+(SO) with stable outlook) and RMZ Buildcon Private Limited (RBPL, rated [ICRA]BBB+(SO) with stable outlook) for acquisition of shareholding in RMZ Infotech Private Limited (RIPL).

Liquidity position:

The free cash balances were at Rs 20.66 crore, Rs 8.37 crore and Rs 2.2 crore on the standalone balance sheets of MRPL, RGIPL and RNSPPL respectively as on March 31, 2018 and are expected to remain at a similar level going forward also. The rated loans also have three months of interest service reserve account (ISRA) for the Millenia office, North Star office and residential loans and one-month ISRA for the Galleria mall loan.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities Rating Methodology for debt backed by lease rentals Rating Methodology for Holding Companies
Parent/Group Support	Not Applicable
Consolidation / Standalone	While assigning the rating, ICRA has taken a consolidated view of Millennia Realtors Private Limited (MRPL), RMZ Galleria (India) Private Limited (RGIPL) and RMZ North Star Projects Private Limited (RNSPPL) due to the inter-linkages in the loans availed by these companies, including cross-collateralisation. ICRA has not consolidated other subsidiaries and joint ventures since MRPL does not have unrestricted access to the cash flows of such entities due to the presence of senior, secured borrowings in the form of lease rental discounting (LRD) loans with established escrow and payment waterfall mechanism. However, in line with its limited consolidation approach, ICRA has factored in the rated entity's support to fund the equity component of the investment in the under-development projects, any cost overruns and, and debt servicing in the initial stage of operations.

About the company

MRPL is the ultimate holding company of the RMZ Group, which is one of the leading players in the commercial real-estate segment of Bengaluru. Since 1997, the Group's activities have been concentrated on the commercial real-estate segment, primarily in Bengaluru. Other locations where the RMZ Group has completed projects include Pune, Kolkata, Chennai and Hyderabad.

At present, MRPL owns two commercial properties with a total leasable area of close to 5 lakh sq ft in Bengaluru. The company ventured into residential development in 2012 and launched RMZ Latitude (5.1 lakh sq ft of MRPL's saleable area), which is a high-end residential apartment at Hebbal, Bengaluru; and RMZ Sawaan (0.9 lakh sq ft), which is a villa

project at Jala Hobli, Bengaluru (North). RGIPL is a subsidiary of MRPL and is developing a mixed-use real estate project in North Bengaluru with 3.0 lakh sq ft of retail space and 5.6 lakh sq ft of residential space. RNSPPL is developing 1.6 lakh sq ft of office space, which is a part of the Galleria project.

MRPL is the ultimate holding company for other operational and under-development commercial real estate portfolio of the group, including RMZ Infotech Private Limited (100% stake), Divija Commercial Properties Private Limited (50% stake), Prestige City Properties (49% stake), Akarshak Infrastructure Private Limited (100% stake) and Prahitha Construction Private Limited (100% stake).

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	172.57	28.06
PAT (Rs. crore)	-37.11	-35.46
OPBDIT/ OI (%)	-5.68%	-33.35%
RoCE (%)	-10.40%	-7.44%
Total Debt/ TNW (times)	-15.1	-7.8
Total Debt/ OPBDIT (times)	-48.55	-55.50
Interest coverage (times)	-0.71	-0.33
NWC/ OI (%)	44%	106%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating May-19	Date & Rating in FY2019 Apr-18	Date & Rating in FY2017 Dec-16	Date & Rating in FY2016 Sep-15
1 Term Loan	Long Term	300.0	287.0	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2 Unallocated	Long Term	110.0	-	[ICRA]BBB- (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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	May-18	-	Jun-33	300.0	[ICRA]BBB- (Stable)
NA	Unallocated Limits	-	-	-	110.0	[ICRA]BBB- (Stable)

Source: RMZ Galleria India Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
RMZ Galleria India Private Limited	100%	Full consolidation
RMZ North Star Projects Private Limited	100%	Full consolidation
RMZ Infotech Private Limited	100%	Limited consolidation
RMZ Infotech (Pune) Private Limited	100%	Limited consolidation
Prestige Citi Properties	49%	Limited consolidation
RMZ Infotechpark (India) Private Limited	51%	Limited consolidation
RMZ Hotels Private Limited	51%	Limited consolidation
RMZ Construction Private Limited	100%	Limited consolidation
RMZ Corp Holding Private Limited	51%	Limited consolidation

Note: List above does not include step-down subsidiaries

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