August 30, 2019

RMZ Estates Private Limited: Long-term rating reaffirmed at [ICRA]BBB+(SO); outlook revised to Negative

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	1,600.0	1,600.0	[ICRA]BBB+(SO) reaffirmed; outlook revised from Stable to Negative
Total	**1,600.0**	**1,600.0**	

*Instrument details are provided in Annexure-1

The letters SO in parenthesis suffixed to a rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. SO ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned.

Rationale

While assigning the rating, ICRA has taken a consolidated view of RMZ Estates Private Limited and RMZ Buildcon Private Limited (together referred to as "Issuers"), which have raised total debt of Rs. 3,800 crore (referred to as acquisition debt) as co-borrowers. The issue proceeds have been used to acquire 47% shareholding in RMZ Infotech Private Limited (RIPL). The outstanding debt as on June 30, 2019 stood at Rs. 2,879 crore.

The acquisition debt is currently supported by surpluses from RIPL and REIPL after meeting their senior debt obligations. The revision in outlook takes into account the increase in leverage in RIPL and REIPL, as additional debt has been raised in these entities, which has largely been utilised to fund fresh investments in upcoming projects. The operational cash flows of RIPL and REIPL, after meeting the obligations on their senior secured debt, are expected to be inadequate to service the coupon on the rated acquisition debt. Nonetheless, RIPL and REIPL have undisbursed sanctioned debt which can support the servicing of the rated debt in the near to medium term. The Group plans to reduce the acquisition debt to around Rs. 2,000 crore supported by the undisbursed debt in RIPL and REIPL and the equity to be raised through stake dilution in identified projects; timely conclusion of these transactions can improve the coverage indicators on a consolidated level.

The ratings favourably factors in the financial flexibility of the Issuers resulting from the group's shareholding in RIPL. RIPL and REIPL have strong business profile with lease income portfolio of 13.8 million square feet (msf) spread across Bangalore, Chennai, Gurgaon and Pune; the rental income from these properties in FY2020 is estimated to be around Rs 1045 crore. The rating also takes into account the long tenor of 13 years for the rated instruments and debt service reserve account (DSRA) covering 6 months of coupon due.

The rating is, however, constrained by the high refinance risk associated with the instruments due to presence of put option. The rated instruments also have redemption premium that step up over the tenor; hence any delay in prepayment could increase the overall refinancing requirement significantly. Since the rated facilities would be serviced through surplus cash flows after meeting senior debt obligations, any adverse variations in the senior debt repayment structure could impact the coverage ratios for the rated facilities. Moreover, any material reduction in occupancy levels or increase in interest rates in senior debt could impair the debt protection metrics. These risks are offset to some extent by the high asset quality in RIPL and REIPL and their established operating track record with high occupancy and diversified tenant portfolio.

Outlook: Negative

Although, ICRA believes that RIPL and REIPL will continue to benefit from their large portfolio of stable, rent-generating assets, the revision in outlook reflects the significant increase in leverage at the Group level. The Group is also in the process of raising equity of up to Rs 2,350 crore through stake dilution in identified projects, which can help reduce the acquisition debt. The outlook may be revised to 'Stable' if a meaningful reduction in debt at the group level results in improvement in the coverage ratios. The ratings may be downgraded if there is a material reduction in occupancy level in the completed portfolio or the debt is not reduced from the current levels due to delay in equity raising.

Key rating drivers

Credit strengths

Strong business profile of RIPL and REIPL – RIPL and REIPL together have a lease income portfolio of 13.8 msf spread across Bangalore, Chennai, Gurgaon and Pune. The strong asset profile is underpinned by favourable locations, high occupancy level as well as diversified and reputed tenant profile. The stable cash flow profile of RIPL and REIPL – with estimated rental income of Rs 1045 crore for FY2020, provide comfort. The issuers will hold 47% shareholding in RIPL which will support their financial flexibility.

Long tenor and lower debt servicing in initial years – The rated debt facilities have a long tenor of 13 years and carry quarterly coupon payments at the rate of 8% per annum, apart from premium payable at redemption. There is a DSRA covering 6 months of coupon payment which further supports the liquidity position.

Credit challenges

High leverage and modest coverage indicators – The gross lease rental securitisation loans in RIPL and REIPL have increased to around Rs 8,551 crore, of which Rs. 411 crore is undisbursed as on date. The increase in debt has been largely utilised to fund fresh investments in upcoming projects. The operational cash flows of RIPL and REIPL, after meeting obligations on their senior secured debt, are expected to be inadequate to service the coupon on the outstanding acquisition debt. There is reliance on the undisbursed sanctioned debt in RIPL and REIPL and cash flows from other projects to meet the interest obligations.

High refinance risk - The Group plans to reduce the acquisition debt to around Rs. 2,000 crore supported by the undisbursed sanctioned senior debt in RIPL and REIPL and the equity raised through stake dilution in identified projects, in which case, the coverage indicators on a consolidated level are expected to improve. Redemption of balance amount is proposed through further equity divestment in the medium term. The rated instruments also have redemption premium that step up over the tenor; hence any delay in prepayment could increase the overall refinancing requirement significantly.

Debt protection metrics vulnerable to changes in occupancy, interest rates or senior debt repayment structure –Since the rated facilities would be serviced through surplus cash flows after meeting senior debt obligations, any adverse variations in the senior debt repayment structure will impact coverage ratios for the rated facilities. The debt protection metrics would also be vulnerable to any significant reduction in occupancy levels or increase in interest rates.

Liquidity position:

The rated facilities have a long repayment tenor of the debt of 13 years and carry quarterly coupon payments at the rate of 8% per annum, apart from premium payable at redemption. There is a DSRA covering 6 months of coupon payment (around Rs. 120 crore) which further supports the liquidity position. Additional liquidity through equity dilution in identified projects of the Group remains critical to bring down the debt levels since the surplus cash flows from RIPL and REIPL are expected to be inadequate to service the coupon for the current outstanding acquisition debt.

RIPL and REIPL have comfortable liquidity profile owing to stable and predictable monthly rental collections. The liquidity profile is augmented by the loan specific debt service reserve accounts maintained by the company (three to six months of subsequent instalments) and cash balances totalling to Rs 350 crore. Further the company has undisbursed sanctioned debt of Rs. 411 crore as on date and further top up potential of around Rs. 150 crore against rentals for couple of projects, which can support the coupon payments for the acquisition debt.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Approach for rating debt instruments supported by structural features (Non-securitized transactions)
Parent/Group Support	Not applicable
Consolidation / Standalone	While assigning the rating, ICRA has taken a consolidated view of RMZ Estates Private Limited and RMZ Buildcon Private Limited (together referred to as "Issuers"), which have raised total debt of Rs. 3,800 crore as co-borrowers.

About the company:

RMZ Estates Private Limited is a company incorporated in June 2018 for the purpose of acquiring 47% shareholding in RMZ Infotech Private Limited, along with RMZ Buildcon Private Limited. The issuers do not have any business operations as on date. They are promoted by Mr Raj Menda and Mr Manoj Menda, who are the promoters of the RMZ group.

The RMZ group is one of the leading players in the commercial real estate segment in Bangalore. The group's flagship company, RIPL, currently has a portfolio of completed office space aggregating to 13.9 msf of which 5.8 msf is owned by RIPL, 7.4 msf by REIPL, and the rest by RICL and RAPPL. RIPL will be undertaking development of over 7.5 msf of office space through certain other subsidiaries over the next 3-5 years.

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	-	-
PAT (Rs. crore)	-	-103.9
OPBDIT/OI (%)	-	-
RoCE (%)	-	-
Total Debt/TNW (times)	-	n.m.
Total Debt/OPBDIT (times)	-	n.m.
Interest coverage (times)	-	-

Note: The issuer is a company that has been incorporated in FY2019; n.m. – not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
					Date & Rating	Date & Rating in FY2019		Date & Rating in FY2018
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on June 30, 2109 (Rs. crore)	August 2019	July 2018	June 2018	-
1	Term loan	Long Term	1,600.0	1,291.0	[ICRA]BBB+(SO) (Negative)	[ICRA]BBB+ (SO) (Stable)	Provisional [ICRA]BBB+ (SO) (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	FY2019	-	Jun-2032	1,600.0	[ICRA]BBB+(SO) (Negative)

Source: RMZ Estates Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
RMZ Buildon Private Limited	Group Company	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.

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