

October 09, 2020

RMZ Azure Projects Private Limited (RAPPL): Rating placed on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	300.0	300.0	[ICRA]A(CE) &; rating placed on watch with developing implications
Total	300.0	300.0	

*Instrument details are provided in Annexure-1
&- rating watch with developing implications

Rating Without Explicit Credit Enhancement **[ICRA]BBB+**

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The above rating is based on the strength of the corporate guarantee provided by RMZ Infotech Private Limited (RIPL), the holding company of RMZ Azure Projects Private Limited (RAPPL), for the rated term loan programme. The rating watch reflects ICRA's outlook on the rating of the guarantor, RIPL.

Adequacy of credit enhancement

The rating of RAPPL takes into account the corporate guarantee provided by RIPL to the borrowing programme of RAPPL. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenure of the rated instrument. Given these attributes, the guarantee provided by PEPL is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]A(CE)** against the rating of **[ICRA]BBB+** without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

- Ownership covenant of the Borrower: During the tenure of the loan, no change of the parent ownership in the borrower without approval from lender.
- Ownership covenant of the Parent: During the tenure of the loan, the promoter holding in the parent shall not fall below the existing shareholding
- Financial covenant: Minimum FACR of 1.5x

Key rating drivers and their description

Credit strengths

Corporate guarantee provided by RIPL towards the rated bank facilities of RAPPL – The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by RIPL. The rated instrument does not involve a structured payment mechanism.

Favourable location of project – The building is located on Bellary Road, Hebbal in Bangalore. It is a prime area for commercial office space. The project has a total leasable area of 0.46 million square feet (mn sqft).

Established track record of the promoter in the commercial real estate sector - 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. RIPL currently has a portfolio of 13.9 mn sqft of completed development on a consolidated basis.

Credit challenges

Modest debt coverage indicators - As of March 2020, the property reported around 65% occupancy levels. The ability of the company to enter into lease agreements for the balance area and ramp up the occupancy levels will remain critical given the high debt levels and step up EMIs. Although there is expected to be marginal deficits in the operational cash flows in relation to the debt repayments due over FY2021, a debt service reserve covering three months of EMI, in addition to the cash balance of Rs. 9.8 crore as of March 2020, provides comfort.

High tenant concentration – While the occupancy level is 65%, the top two tenants itself occupy 56% of the space, exposing the company to revenue concentration.

Vulnerability of debt coverage ratios to changes in interest rate and occupancy levels - The debt coverage ratios are highly linked to changes in interest rates and reduction in occupancy levels. Any increase in interest rate or decline in occupancy levels might put pressure on the debt coverage metrics.

Liquidity position: Adequate

The liquidity position of the company is expected to be driven by the liquidity profile of the guarantor. At the standalone level, marginal deficits are expected in the operational cash flows in relation to the debt repayments due over FY2021. Nonetheless, there is liquidity support in the form of a debt service reserve covering three months of EMI, in addition to the cash balance of Rs. 9.8 crore as of March 2020. At the group level, RIPL's liquidity is adequate, backed by stable and predictable monthly rental collections and adequate coverage ratios on the associated debt. 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 around Rs 405 crore.

Rating sensitivities

The rating assigned to the borrowing facilities of RAPPL would remain sensitive to any movement in the rating or outlook of the guarantor, RIPL.

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 backed by third-party explicit support
Parent/Group Support	The rating assigned to RAPPL factors in the high likelihood of its parent, RIPL (rated [ICRA]A; on watch with developing implications, extending financial support to it because of close business linkages between them. Moreover, RIPL has provided corporate guarantee to the borrowing programme of RAPPL.
Consolidation/Standalone	ICRA has evaluated the standalone operational and financial profile of RAPPL. In addition, the rating derives strength from the corporate guarantee provided by RIPL for the borrowings of RAPPL.

About the company

RMZ Azure Projects Private Limited (RAPPL, formerly GMR Hebbal Towers Private Limited) is a 100% subsidiary of RIPL. This company was earlier part of the GMR group and held the land parcel of 1.92 acres in Hebbal, Bangalore. Subsequently, GMR sold off the company to the RMZ Group in FY2015. RIPL acquired RAPPL from a group company in FY2017. RAPPL has developed a commercial office space with leasable area of around 0.46 million square feet (mn sqft). The project is complete with 65% occupancy as on date. The leasing for the remaining area is also in advanced stages.

About the guarantor

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 13.9 mn sqft of which 5.8 mn sqft is owned by RIPL, 7.4 mn sqft by REIPL, and the rest by RICL and RAPPL. RIPL is undertaking development of over 8.5 mn sqft of office space through certain other subsidiaries.

Key financial indicators

	FY2019 (audited)	FY2020 (provisional)
Operating Income (Rs. crore)	-	22.5
PAT (Rs. crore)	-0.4	-17.5
OPBDIT/OI (%)	-	59.1%
PAT/OI (%)	n.m.	-78.0%
Total Outside Liabilities/Tangible Net Worth (times)	10.8	12.1
Total Debt/OPBDIT (times)	n.m.	23.4
Interest coverage (times)	n.m.	0.5

n.m.: not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Current Rating (FY2021)					Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as of March 2020	Date & Rating		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
				9-Oct-20	15-May-20	30-Aug-19	22-Feb-19	17-Jan-18
Term Loan	Long Term	300.0	296.0	[ICRA]A(CE) &	[ICRA]A (CE) (Negative)	[ICRA]A (SO) (Negative)	[ICRA]A (SO) (Stable)	[ICRA]A+ (SO) (Stable)

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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	FY2020	-	FY3034	300.0	[ICRA]A(CE)&

Source: company

&: rating watch with developing implications

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Analyst Contacts

Shubham Jain

+91 124 4545306

shubhamj@icraindia.com

Mathew Kurian Eranat

+91 80 4332 6415

mathew.eranat@icraindia.com

Ritika Periwal

+91 80 4332 6412

iritika.mundhra@icraindia.com

Relationship Contact

L. Shivakumar

+91 22 6169 3300

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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