October 09, 2020

RMZ Estates Private Limited (REPL): 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	1,600.0	1,600.0	[ICRA]BBB+(CE) &; rating placed on watch with developing implications
Total	**1,600.0**	**1,600.0**	

**Instrument details are provided in Annexure-1*

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

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 support provided by RMZ Infotech Private Limited (RIPL), which is a co-obligor for the rated facility. Surplus cash flows from RIPL and its subsidiary, RMZ Ecoworld Infrastructure Private Limited (REIPL), after meeting their senior debt obligations, are being used to service the repayment obligations for the rated term loan programme.

ICRA has placed the rating of the company on watch with developing implications, in line with the rating action on RIPL, following the conclusion of a binding agreement between RMZ Group and a global investment firm for sale of identified commercial real estate assets owned by RMZ Group to the latter. The transaction documents (shareholders agreement and framework agreement between the parties) are expected to be signed shortly on completion of certain conditions precedent. On conclusion of the transaction, the rated debt facilities of REPL and RBPL are expected to be prepaid in full.

Adequacy of credit enhancement

The rating of REPL takes into account the support provided by RIPL to the borrowing programme of REPL. The support provided by RIPL is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]BBB+(CE)** against the rating of [ICRA]BB+ 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

a) The rated debt to be subordinated to any construction finance and LRD facility raised in RIPL and REIPL
b) Two quarters' coupon to be kept as interest reserve
c) No further capex or property investment or acquisition, other than ones which have been already informed
d) Vacancy of not more than 10%; Step-up in coupon by 1% if vacancy is higher than 10%
e) Any surplus generated in RIPL and REIPL through refinancing or equity raise will be mandatorily used for prepayment of the rated debt facilities
f) Events of Default: Cross Default and acceleration by senior lenders of RIPL and REIPL, Insolvency application against RIPL, REIPL or MRPL and any effort to prevent security enforcement mechanism for rated debt investors.

Key rating drivers and their description

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.

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 outstanding in RIPL and REIPL as on March 31, 2020 was Rs 8,750 crore. The high debt results in elevated 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 loans. Apart from any operational surpluses, any surplus generated in RIPL and REIPL through debt top-up / equity raise will also mandatorily be used for repayment of the rated facilities.

RIPL's collections from operational assets have not seen any material impact of the Covid-19 pandemic till date with close to 100% collections in the current fiscal, excluding income from the food court tenants. Nonetheless, ICRA will continue to evaluate the impact of the pandemic on an ongoing basis, including any impact of the pandemic on occupancy levels and incremental leading in under development projects.

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: Adequate

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 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 operational cash flows from RIPL and REIPL are expected to be inadequate to prepay the rated facilities.

The liquidity position of the company is expected to be driven by the liquidity profile of the support provider, RIPL. 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

Positive triggers – ICRA could revise the outlook to Positive or upgrade the ratings if there is a meaningful reduction in the debt levels of the group including acquisition debt, leading to significant reduction of leverage and an improvement in its credit metrics.

Negative triggers – The ratings may be downgraded if the leverage is not reduced adequately due to delay in the proposed sale transaction at Group level and/or other equity raising. Also, material reduction in occupancy level in the completed portfolio retained by the group or significant increase in leverage for the under-construction portfolio could put a pressure on the ratings.

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.

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)	2.5	59.6
PAT (Rs. crore)	-308.5	-564.5
OPBDIT/OI (%)	2.7%	10.4%
PAT/OI (%)	-12374.5%	-946.9%
Total Outside Liabilities/Tangible Net Worth (times)	n.m.	n.m.
Total Debt/OPBDIT (times)	n.m.	n.m.
Interest coverage (times)	0.0	0.0

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: Not applicable

Rating history for last three years:

	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years			
				Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as of March 2020	09-Oct-20	30-Aug-19	26-July-2018	15-June-2018	
Term loan	Long Term	1,600.0	1,047.0	**[ICRA]BBB+ (CE) &**	[ICRA]BBB+(SO) (Negative)	[ICRA]BBB+ (SO) (Stable)	Provisional [ICRA]BBB+ (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	FY2019	-	Jun-2032	1,600.0	[ICRA]BBB+ (CE)&

Source: company

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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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