

October 09, 2020

RMZ Galleria India Private Limited: Rating placed on watch with developing implications

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	300.00	300.00	[ICRA]BBB- & rating placed on watch with developing implications
Unallocated	110.00	110.00	[ICRA]BBB- & rating placed on watch with developing implications
Total	410.00	410.00	

*Instrument details are provided in Annexure-1

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Rationale

ICRA has placed the rating of the company on watch with developing implications 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.

The transaction will generate a net equity value of approximately Rs 6,200 crore for the Group which will be used to prepay debt, including the lease rental discounting loans and other general corporate loans. The transaction is likely to result in significant reduction in leverage at the group level. However, the group will continue to have construction finance loans for its under construction and upcoming development.

ICRA is in process in seeking further clarity on the exact contours of the transaction for carrying out a detailed assessment to understand the impact of the acquisition on the company's credit profile and will take a rating action accordingly. ICRA will also monitor the timelines for closure of the transaction as well as proposed debt reduction.

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 Bengaluru, Pune, Kolkata, Chennai and Hyderabad.

Demonstrated financial flexibility: MRPL's financial flexibility is aided by its established relationship with lenders and the valuation of its investments in various companies, including RMZ Infotech Private Limited (RIPL), the flagship company of the group. MRPL has been able to refinance its project debt and avail additional corporate loans over the last two years. This in turn has provided it liquidity to invest in new commercial projects.

Escrow mechanism in place with additional comfort in the form of DSRA: Presence of an escrow mechanism for all the rated loans which prioritises debt repayment before any other utilization along with one to three month's interest as DSRA provides cushion for debt servicing.

Credit challenges

High leverage in the commercial asset portfolio: MRPL at present has three commercial properties in Bengaluru – The Millenia, Northstar and Ecozen with a leasable area of 0.28 msft, 0.16msft and 0.11 msft respectively. Notwithstanding 100% occupancy in Millennia and Ecozen, MRPL is exposed to vacancy risk given the expiry of the lock-in period for most of the leases. Leasing tie-ups are yet to be completed for over 80% of the area in North Star project (completed), exposing the company to market risks. The leverage remains high in the commercial asset portfolio, resulting in moderate coverage of the rental income over the debt servicing obligations in this segment.

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, the market for which in Bengaluru has been sluggish over the last couple of years. Nonetheless, the completion and hand over of these projects has resulted in some pick up in sales velocity in these projects and the inventory is expected to be liquidated over the next two years.

Impact of Covid-19 pandemic: MRPL’s collections from operational office assets have not seen any material impact of the Covid-19 pandemic, 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 the vacant area and under development projects. The lockdowns imposed due to the outbreak of the pandemic has adversely impacted the revenue and occupancy levels for the Galleria Mall. The coverage indicators for the mall are expected to be inadequate and support from the group is expected to meet the debt servicing.

Significant investments and guarantees extended to upcoming commercial 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 the borrowings under its subsidiaries/associates. Nonetheless, with the proposed sale transaction, there will be significant reduction in debt at the Group level, both at MRPL standalone and consolidated level.

Liquidity position: Adequate

The free cash balances were at Rs 29.49 crore, Rs 10.21 crore and Rs 4.85 crore on the standalone balance sheets of MRPL, RGIPL and RNSPPL respectively as on March 31, 2020 as per the provisional figures. 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 supporting the liquidity position.

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 with the conclusion of the proposed transaction, leading to significant reduction of leverage and an improvement in its credit metrics.

Negative triggers – The ratings may be downgraded if there is significant delay in conclusion of the proposed transaction. Also, slow sales progress in the residential projects or significant increase in leverage for the under-construction portfolio could put pressure on the ratings.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Rating Methodology for Real Estate Entities

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 sft of MRPL's saleable area), which is a high-end residential apartment at Hebbal, Bengaluru and RMZ Sawaan (0.9 lakh sft), which is a villa project at Jala Hobli, Bengaluru (North). RGIPL, a subsidiary of MRPL, has developed a mixed-use real estate project in North Bengaluru with 3.0 lakh sqft of retail space and 5.6 lakh sqft of residential space. RNSPPL has developed 1.6 lakh sqft 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

	FY2019 (audited)	FY2020 (provisional)
Operating Income (Rs. crore)	107.91	170.76
PAT (Rs. crore)	-138.31	-15.41
OPBDIT/ OI (%)	-3.39%	11.97%
PAT/OI (%)	-128.18%	-9.02%
Total Outside Liabilities/Tangible Net Worth (times)	45.44	107.12
Total Debt/ OPBDIT (times)	-506.36	131.35
Interest coverage (times)	0.10	0.91

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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)	Date & Rating 9-Oct-2020	Date & Rating in FY2020 10-May-2019	Date & Rating in FY2019 13-April-2018	Date & Rating in FY2018 -
1	Term Loan	300.00	279.95	[ICRA]BBB- &	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
2	Unallocated	110.00	-	[ICRA]BBB- &	[ICRA]BBB- (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	May 2018	-	June 2033	300.00	[ICRA]BBB-&
NA	Unallocated	-	-	-	110.00	[ICRA]BBB-&

Source: RGIPL

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Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Millennia Realtors Private Limited	100.00%	Full consolidation
RMZ North Star Projects Private Limited	100.00%	Full consolidation
RMZ Infotech Private Limited	100.00%	Limited consolidation
RMZ Infotech (Pune) Private Limited	100.00%	Limited consolidation
RMZ Infotechpark (India) Private Limited	51.21%	Limited consolidation
RMZ Hotels Private Limited	51.21%	Limited consolidation
RMZ Construction (India) Private Limited	100.00%	Limited consolidation
RMZ Corp Holding Private Limited	50.67%	Limited consolidation
Prahitha Constructions Private Limited	50.67%	Limited consolidation

Note: List above does not include step-down subsidiaries

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