

RMZ Galleria India Private Limited

April 13, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	410.00	410.00	[ICRA]BBB- (Stable); Reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the rating of [ICRA]BBB- (pronounced ICRA triple B minus) for the Rs. 410.00-crore fund-based term loans of RMZ Galleria India Private Limited (RGIPL). The outlook on the long-term rating is Stable.

For arriving at the rating, ICRA has taken a consolidated view of RGIPL along with its group company — Millennia Realtors Private Limited (MRPL) — as both the entities operate in the same line of business, have strong operational and financial linkages, and share a common management.

Rationale

The rating reaffirmation factors in the healthy surplus realised by MRPL through the sale of Azure project to RMZ Infotech Private Limited (RIPL) and the recovery of substantial backlog of rental receivables in the Ecozen project. The company has been able to avail additional corporate loans, which has provided liquidity to complete the ongoing residential projects and invest in new commercial projects. The rating also considers the established track record and reputation of the RMZ Group in the real-estate sector of Bengaluru, especially in the commercial office space development segment. The Group's residential projects have witnessed time and cost overruns alongside weak sales, which have affected operational cash flows. Nonetheless, MRPL has demonstrated financial flexibility, aided by its established relationship with lenders and the valuation of its investments in RIPL (rated Provisional [ICRA]AA-(SO) with Stable outlook). The rating also factors in the established operating profile of MRPL's commercial asset portfolio and its reputed tenant profile. 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.

The rating, however, is constrained by the high leverage in the commercial asset portfolio, leading 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. The rating is also constrained by the weak sales in the residential project portfolio. Moreover, the rating is impacted by the high refinance risks given that a substantial amount of repayment is due in FY2019. MRPL has extended significant corporate guarantees (over Rs 2,000 crore) for the borrowings by its subsidiaries/associates, apart from RGIPL.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that the company's operational and financial risk profile will remain moderate. Also, MRPL is expected to witness improvement in residential project sales velocity as it achieved completion in H2 CY2017 and will likely be able to refinance its debt in a timely manner. The outlook may be revised to Positive if there is significant improvement in sales momentum and collections in the residential projects and meaningful reduction in debt levels. The outlook may be revised to Negative if there is continued weakness in sales momentum and collections and high incremental investments result in an increase in the Group's debt levels.

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 15 million square feet (msf) with assets spread across Bengaluru, Pune, Kolkata, Chennai and Hyderabad.

Healthy surplus realised through sale of Azure project and receipt of rent receivables from Ecozen project: MRPL sold the stake in its wholly-owned subsidiary, RMZ Azure Private Limited (RAPL), a company holding land in Hebbal with development potential of 0.4 msf of leasable area to RIPL for an equity consideration of ~Rs. 40 crore in FY2017. This also resulted in reduction in interest outgo and debt levels with the ~Rs. 80-crore debt moving from MRPL to RIPL. On account of a pending litigation in the Ecozen property, the rentals from RMZ Ecozen were not being deposited in the company's bank accounts. With the dispute resolved in FY2017, the company received the backlog of rental receivables and compensation amounting to Rs. 34 crore. The sale of the Azure property and the receipt of pending rentals and compensation for the Ecozen property resulted in a healthy surplus of Rs. 74 crore in FY2017. This helped the company offset the weak operational cash flows from the ongoing residential projects, enabling substantial physical progress and completion of the projects in H2 CY2017.

Demonstrated financial flexibility: MRPL's financial flexibility is aided by its established relationship with lenders and the valuation of its investments in RIPL. 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 complete the ongoing residential projects and invest in new commercial projects. Given the high debt repayment obligations of over Rs. 450 crore in FY2019, the company will be reliant on refinancing to service the debt in a timely manner.

Credit challenges

High leverage in the commercial asset portfolio: MRPL at present has two commercial properties in Bengaluru – The Millenia and Ecozen. Overall, the occupancy levels are expected to remain high (over 97%) 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. High leverage in the commercial asset portfolio results in modest coverage of the rental income over the debt servicing obligations in this segment.

Low sales velocity and cost overruns result in weak cash flow from residential operations: Time and cost overruns have impacted the profitability of residential projects, while cash flows from operations have been weak on account of the low sales velocity. Weak sales in the residential projects – Latitude and Sawaan – is attributable to 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 in H2 CY2017 is expected to result in improvement in sales velocity. Also, with no balance construction costs, the incremental collections will be entirely available to service the outstanding project loans.

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 over Rs 2,000 crore to the borrowings under its subsidiaries/associates apart from RGIPL. The largest guarantee (Rs. 1,450 crore) is towards a commercial property, Skyview. The project is being developed in partnership with My Home Group. The said property is in advanced stages of construction with leasing tie-ups completed for ~15% of the total leasable area.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Real Estate Entities](#)

[Rating Methodology for debt backed by lease rentals](#)

About the company

RGIPL is a subsidiary of Millennia Realtors Private Limited (MRPL), the holding company of the RMZ Group. The Group is one of the leading players in the commercial real-estate segment of Bangalore. Beginning in 1997, the group's activities are concentrated on the commercial real estate segment, largely in Bangalore. Other locations where RMZ Group has completed projects include Pune, Kolkata, Chennai and Hyderabad.

RGIPL is developing a 15.12 lakh square feet (sft) mixed-use project (residential, retail and commercial), named RMZ Galleria, under a joint development agreement (JDA) at Yelahanka, Bangalore. RGIPL purchased balance 50% stake in RMZ Somerset from Ascott in FY2017 and plans to change the development plan from serviced residences to boutique commercial office space. Of the entire 15.15 lakh sft area being developed, RGIPL's share is 2.99 lakh sft of retail space, 5.65 lakh sft of residential space and 1.61 lakh sft of office space. The remaining is the share of the JD partner. The handover has been completed for the residential and landowner share of office space, while the retail space and additional office space belonging to RMZ are to be commissioned in H1 FY2019. The pre-leasing commitments have been received to the extent of 84% of the leasable area in the mall and the leasing tie-up has been completed with reputed tenants such as Apple and L&T for the office area (land owners' share).

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	163.32	172.57
PAT (Rs. crore)	-3.64	-37.11
OPBDIT/ OI (%)	-6.21%	-5.68%
RoCE (%)	-8.16%	-10.40%
Total Debt/ TNW (times)	70.4	-15.1
Total Debt/ OPBDIT (times)	-39.41	-48.55
Interest Coverage (times)	-6.91	-0.71
NWC/ OI (%)	49%	44%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Term Loan	410.00	280.00	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[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	February 2017	-	March 2028	410.00	[ICRA]BBB- (Stable) Source: Millennia Realtors Private Limited

ANALYST CONTACTS

Shubham Jain

+91-0124-4545306
shubhamj@icraindia.com

Mathew Kurian Eranat

+91-8043326415
mathew.eranat@icraindia.com

Adarsh Reddy

+91-8043326405
adarsh.reddy@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
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents