December 26, 2019

RMZ Ecoworld Infrastructure Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	2,603.15	3,753.80	[ICRA]A (Negative); Assigned/ Outstanding
NCD	1,375.00	1,375.00	[ICRA]A (Negative); Reaffirmed
NCD	-	53.00	[ICRA]A (Negative); Assigned
Unallocated	457.27	-	
Total	**4,435.42**	**5,181.80**	

*Instrument details are provided in Annexure-1

Rationale

While assigning the rating, ICRA has taken a consolidated view of RMZ Infotech Private Limited (RIPL) and its subsidiaries – RMZ Ecoworld Infrastructure Private Limited (REIPL), RMZ Azure Projects Private Limited and RMZ Infinity (Chennai Limited) - because of the strong operational and financial linkages among the entities. References to the RMZ Group or the Group include other operating companies and holding companies owned by the promoter family.

The rating continues to derive comfort from RIPL's strong consolidated portfolio of completed development with high occupancy levels, the favourable location of its projects, reputed tenant profile, and the group's track record in maintaining high occupancy levels in its properties. RIPL's assets are spread across multiple cities including Bangalore, Chennai, Pune and Gurgaon, with moderate tenant concentration. In FY2020, RIPL and REIPL are expected to report rental income of Rs 1,045 crore, up from Rs 948 crore during FY2019. Most of the loans are backed by debt service reserve accounts (DSRA) covering three to six months of debt instalments which supports the liquidity position.

The rating is constrained by the high leverage in RIPL and REIPL, which has resulted in projected debt to rental income of 8.1 times for FY2020 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 majority of the new loans raised. In addition, the Group was expected to raise equity in identified projects which would have supported reduction in the acquisition debt[1]. While one transaction has been concluded with Share Purchase Agreement been signed, a term sheet has been signed for the other transaction. However, timely funds inflow and consequent reduction in acquisition debt will be key monitorables. The rating is also constrained by the risks associated with RIPL's development portfolio through wholly owned subsidiaries, which have total development potential of over 7.5 million square feet (msf), of which 2.5 msf is under active development. Construction finance loans availed to fund the future development in the acquired projects, would further increase the leverage at the consolidated level. Nonetheless, ICRA draws comfort from RMZ Group's established and leading position as a commercial property developer, and its strong relationship with reputed clientele; and the same would assist RIPL in managing the construction and market risks to some extent.

[1] Refers to Rs. 3800 crore debt taken in RMZ Estates Private Limited and RMZ Buildcon Private Limited, which was availed to buy the stake of PE investors in RIPL, of which Rs. 2,454 crore is outstanding as on November 30, 2019. These entities are rated at [ICRA]BBB+ (CE) with a negative outlook.

Although, ICRA believes that RIPL and REIPL will continue to benefit from their large portfolio of stable, rent-generating assets, the negative outlook reflects the delay in reduction in reduction in overall consolidated debt.

Key rating drivers

Credit strengths

Strong portfolio of completed commercial real estate assets – RIPL currently has a portfolio of 13.9 msf of completed development on a consolidated basis, with an overall occupancy level of more than 98%. There has been marginal increase in leasable area with better space efficiency and positive revision in rental rates in some properties, resulting in projected rental income of around Rs 1045 crore for FY2020.

Group's track record in development and leasing – 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.

Liquidity support through DSRA: The debt in RIPL and REIPL are entirely in the form of rental securitisation loans. The rent receivables are paid into escrow accounts charged to the lenders. In addition, majority of the loans carry DSRA covering three to six months of debt servicing due.

Credit challenges

High leverage restricts financial flexibility – The gross lease rental securitisation loans outstanding in RIPL and REIPL as on November 30, 2019 is Rs 8,542 crore and Rs. 341 crore is undisbursed. The increase in debt has been largely utilised to fund fresh investments in upcoming projects. 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 new loans to be raised.

Delay in deleveraging – The reduction in acquisition debt has been lower than anticipated. The Group was expected to raise equity in identified projects which would have supported reduction in acquisition debt. While one transaction has been concluded with Share Purchase Agreement been signed, a term sheet has been signed for the other transaction. However, timely funds inflow and consequent reduction in acquisition debt will be key monitorables. The balance acquisition debt is also currently supported by surpluses from RIPL and REIPL after meeting their senior debt obligations.

Execution and market risks related to development portfolio – RIPL has a total development potential of over 7.5 msf, of which 2.5 msf is under active development; hence, the construction risk associated with the development portfolio is significantly high. However, in the long term ICRA expects that the Group's established operational profile will enable timely completion and stabilisation of operations in these assets, which can further support the financial risk profile of RIPL. Moreover, the pre-leasing pipeline during the construction stage has been strong, which supports future revenue visibility.

Liquidity position: Adequate

RIPL and REIPL have comfortable liquidity profile owing to stable and predictable monthly rental collections and adequate coverage ratios on the associated debt. The high tenant diversity and asset quality mitigate the risks of cash flow mismatches due to drop in occupancy levels. 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. 341 crore as on date. Since the acquisition debt is also currently supported by surpluses from RIPL and REIPL after meeting their senior debt obligations, additional liquidity through equity dilution in identified projects remains critical to bring down the debt levels.

Rating sensitivities

Positive triggers – The outlook may be revised to 'Stable' if there is a meaningful reduction in the acquisition debt and RIPL's consolidated debt and timely completion and leasing of under-construction assets.

Negative triggers – The rating may be downgraded if there is a material reduction in occupancy level in the completed portfolio or the leverage is not reduced adequately due to delay in equity raising.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals
Parent/Group Support	Not applicable
Consolidation / Standalone	RIPL has been consolidated along with three of its subsidiaries – REIPL, RMZ Azure Projects Private Limited and RMZ Infinity (Chennai) Limited. These are the three subsidiaries of RIPL that have completed or under-development projects. Also, limited consolidation has been done with entities viz. Abhishaya Infrastructure Private Limited and RMZ Consultancy Services Private Limited, as there is no ongoing project or debt outstanding in these entities currently, however, RIPL may provide need-based financial support to them.

About the company:

REIPL 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 msf of which 5.8 msf is owned by RIPL, 7.4 msf by REIPL, and the rest by RICL and RAPPL. RIPL is undertaking development of over 7.5 msf of office space through certain other subsidiaries.

Key financial indicators (audited)

	FY 2018	FY 2019
Operating Income (Rs. crore)	1025.9	1213.1
PAT (Rs. crore)	6.4	45.6
OPBDIT/ OI (%)	70.9%	67.5%
RoCE (%)	9.8%	10.0%
Total Outside Liabilities/Tangible Net Worth (times)	4.4	5.8
Total Debt/ OPBDIT (times)	7.9	9.8
Interest coverage (times)	1.2	1.2
DSCR	0.8	0.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Nov 30, 2019 (Rs Crore)	Date & Rating	Date & Rating	Date & Rating FY2019				FY2018
					26-Dec-2019	30-Aug-2019	18-Feb-2019	13-Dec-2018	08-Oct-2018	30-Apr-2018	13-Oct-2017
1	NCD	Long Term	1,375.00	1,353.00	**[ICRA]A (Negative)**	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Stable)	-	-	-
2	NCD	Long Term	53.00	0.00	**[ICRA]A (Negative)**	-	-	-	-	-	-
3	Term Loan	Long Term	3,753.80	3,557.33	**[ICRA]A (Negative)**	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Stable)	Provisional [ICRA]AA-(SO) (Stable)	Provisional [ICRA]AA-(SO) (Stable)	Provisional [ICRA]AA-(SO) (Stable)
4	Unallocated	Long Term	-	-		[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Stable)	-	-	-
5	NCD	Short Term	-	-	-	-		[ICRA]A1+	Provisional [ICRA]A1+(SO)	Provisional [ICRA]A1+(SO)	

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
-	Proposed NCD	-	-	-	75.00	[ICRA]A (Negative)
INE585I07012	NCD	FY2019	9.00%	Nov-23	1,353.00	[ICRA]A (Negative)
n.a.	Term loan	FY2017-FY2020*	-	FY3034@	648.88	[ICRA]A (Negative)

* Represents loans sanctioned between FY2017 and FY2020

@ Represents the farthest maturity date among the various maturity dates for different term loans

Source: REIPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
RMZ Ecoworld Infrastructure Private Limited	100%	Full consolidation
RMZ Azure Projects Private Limited	100%	Full consolidation
RMZ Infinity (Chennai) Limited	100%	Full consolidation
Abhishaya Infrastructure Private Limited	100%	Limited consolidation
RMZ Consultancy Services Private Limited	100%	Limited 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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