April 06, 2021

RMZ Ecoworld Infrastructure Private Limited: Ratings revised to [ICRA]A-; removed from watch with developing implications and Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	3,753.80	3,753.80	[ICRA]A-; Revised from [ICRA]A, rating removed from watch with developing implications and Stable outlook assigned
NCD	1,428.00	1,375.00	
Total	**5,181.80**	**5,128.80**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA had earlier placed the rating of RMZ Ecoworld Infrastructure Private Limited (REIPL/the company) on watch with developing implications owing to the proposed change in ownership of the company. Subsequently, REIPL and RMZ Azure Projects Private Limited (RAPPL) are subsidiaries of RMZ Infotech Private Limited (RIPL), in turn whose 99.07% shareholding is held by Brookfield Group through its holding company, Thanatos India Private Limited. The operating assets of RIPL are expected to be demerged into REIPL by H1FY22, following which REIPL will be wholly owned by Brookfield managed fund, with RAPPL as its 100% subsidiary. Owing to the expected transfer of the operational assets and rated debt facilities of RIPL to REIPL and 100% ownership of RAPPL by REIPL, ICRA has now rated the entity based on the consolidated view with RIPL and RAPPL.

The rating action follows the increase in RIPL's consolidated leverage due to bridge debt facility of Rs. 2,600 crore availed as part of the acquisition transaction structure. The loan has a three-year tenure and is expected to be refinanced with lease rental discounting (LRD) loans or loans against property (LAP) over this period. Consequently, the stabilised debt / NOI for the portfolio is expected to remain elevated, resulting in modest debt coverage metrics. Nonetheless, the impact of this incremental leverage is expected to be partly offset by the increase in the average maturity of the loans and the reduction in borrowing costs. Moreover, the new sponsors have infused funds to maintain adequate liquidity in the SPVs to meet potential cash flow mismatches in the interim. On a consolidated basis, RIPL group had unencumbered bank balances of Rs. 388 crore and additional liquidity in the form of debt service reserve accounts amounting to Rs. 311 crore as on February 2021.

The rating is also constrained by the portfolio's exposure to refinancing risks owing to the bullet maturity of bridge debt facility at the end of three years. The rating is further constrained by vacancy risks associated with the leased portfolio; any prolonged impact of the Covid-19 pandemic on new leasing activity may increase tenant vacancy and put pressure on cash flows. However, the risk is partially mitigated by the established operational track record of the assets, the strong tenant profile and the competitive rentals.

The rating, however, positively factors in the strong portfolio of the completed real estate assets (11.76 mn sqft of completed area on a consolidated basis), and the healthy overall occupancy level (92%) of portfolio, supported by long-term lease agreements and a good track record of tenant stickiness, owing to competitive rentals in most of the assets. The rating also derives strength from the track record of new sponsors - Brookfield managed fund. The

Group is one of the largest real estate investment managers globally and has an established track record in India, further demonstrated by its recent listing of a Real Estate Investment Trust (REIT) in India.

The stable outlook represents ICRA's expectation that the strong operational profile of the assets, along with the financial flexibility associated with the sponsor group, will support the credit profile of the rated entities. The portfolio has limited exposure to under-construction area and hence does not have material market risk associated with development portfolio. Nonetheless, any sustained weakness in leasing demand because of the Covid-19 pandemic, which puts pressure on the occupancy or rent rates in the portfolio or its key areas of operation will be a key rating monitorable.

Key rating drivers and their description

Credit strengths

Strong portfolio of completed commercial real estate assets – RIPL currently has a portfolio of 11.76 mn sqft of completed area on a consolidated basis, with the overall occupancy level remaining healthy at 92%, supported by long-term lease agreements and a good track record of tenant stickiness owing to competitive rentals in most of the assets. The consolidated portfolio includes business parks located in Bengaluru, Chennai and Pune. The tenant profile in the portfolio remains strong and diversified with leading multinational and Indian corporates. The top-10 tenants generate around 41% of the total gross rentals. Some of the key tenants in the portfolio are Shell, SAP Labs, Honeywell, Standard Chartered, State Street, KPMG, HSBC, Intel and Morgan Stanley amongst others.

Strong sponsor group with established track record – Brookfield Group is one of the largest real estate investment managers globally and has an established track record in India, further demonstrated by its recently successful REIT listing in India. Further, the Group has a track record in management of real estate properties and significant financial flexibility, which will support the asset SPVs in case of any refinancing requirement. In the interim, sponsors have infused additional funds into the companies to ensure adequate liquidity in relation to the near-term debt repayment obligations.

Liquidity support through DSRA and additional cash infusion from sponsors – Post acquisition by Brookfield Group, the sponsors have infused funds in the three SPVs, as evidenced by a total unencumbered cash balance of Rs 388 crore as on February 2021 on a consolidated level. The liquidity is also supported by the presence of DSRA of Rs. 311 crore maintained with the lenders. The liquidity available is expected to mitigate any cash flow mismatches in the interim arising due to the high leverage.

Credit challenges

High leverage and moderate coverage indicators – As part of the acquisition transaction, the companies have availed a bridge debt facility of Rs. 2,600 crore. The loan has a three-year tenure and is expected to be refinanced into lease rental discounting loans over this period. Consequently, the stabilised debt / NOI for the portfolio is expected to remain elevated, resulting in modest debt coverage metrics. Nonetheless, the impact of this incremental leverage is expected to be partly offset by the increase in the average maturity of the loans and the reduction in borrowing costs.

Exposure to refinancing risks – The bridge debt facility has a bullet repayment at the end of three years, exposing the companies to refinancing risk. However, the companies intend to replace the bridge debt with LRD or LAP structure by topping up the existing LRD debt. Timely refinancing of the bridge debt into LRD/LAP loans, while achieving the targeted maturity and interest rates, will be critical to achieve adequate debt coverage metrics.

Exposure to lease vacancy risks; vulnerability to Covid-19 pandemic impact– Although the pandemic had limited impact on the portfolio of the rated entities, in terms of cash flows or occupancy, sustained weakness in the economic environment and uncertainties regarding work from home may impact the incremental leasing and the realisation of mark-to-market potential of the portfolio assets. However, the risk is partially mitigated by the strong tenant profile and the competitive rentals, which increase the tenant stickiness.

Liquidity position: Adequate

RIPL's liquidity at a consolidated level is expected to remain adequate, supported by the stable rental income from the underlying assets and the low operational expenditure in the leasing business. The high tenant diversity and asset quality partly mitigates 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), totalling to around Rs. 311 crore and cash balances totalling to around Rs 388 crore as on February 2021.

Rating sensitivities

Positive factors – Improvement in cash flows through higher-than-anticipated rent growth and reduction in refinancing risk through elongation of the average debt maturity can result a rating upgrade; specific triggers include cumulative DSCR of the portfolio higher than 1.3 times.

Negative factors – Negative pressure on rating could arise for reasons including reduction in cash flows due to decline in occupancy on sustained basis, or liquidity pressure due to delays in refinancing bridge debt, or significant reduction in cash and bank balances in relation to upcoming debt repayments.

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	For arriving at the ratings, ICRA has taken a consolidated view of RIPL and two of its subsidiaries – REIPL and RAPPL (as mentioned in Annexure -2) given the close business and financial linkages among them and a common sponsor support.

About the company

The consolidated asset profile of RIPL, REIPL and RAPPL has a portfolio of 11.76 mn sqft of completed area on a consolidated basis, with an overall occupancy level of 92%, supported by long-term lease agreements and a good track record of tenant stickiness owing to competitive rentals in most of the assets. The consolidated portfolio includes business parks such as Ecospace, Ecoworld, Centennial, NXT in Bengaluru, RMBP I and RMBP II in Chennai and Icon in Pune. The tenant profile in the portfolio remains strong and diversified with leading multinational and Indian corporates such as Shell, SAP Labs, Honeywell, Standard Chartered, State Street, KPMG, HSBC, Intel and Morgan Stanley.

Currently, RIPL is 100% indirectly held by BSREP III New York FDI I (DIFC), post-acquisition by Brookfield from RMZ Group. REIPL and RAPPL are 100% subsidiaries of RIPL as per the current shareholding structure. BSREP III New York FDI I (DIFC) is a part of Brookfield Group, which is one of the largest real estate investment managers globally and has an established track record in India.

Key financial indicators

RIPL Consolidated	FY2019	FY2020P
Operating Income (Rs. crore)	1213.1	1295.9
PAT (Rs. crore)	45.6	-124.1
OPBDIT/OI (%)	67.5%	63.8%
PAT/OI (%)	3.7%	-9.6%
Total Outside Liabilities/Tangible Net Worth (times)	5.8	8.0
Total Debt/OPBDIT (times)	9.8	12.2
Interest Coverage (times)	1.1	0.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; FY2020 numbers are provisional in nature

Note: The financials till FY2020 include two assets – RMZ Infinity Gurgaon and RMZ Infinity Bangalore which are not part of the portfolio acquired by Brookfield Group. Moreover, RMZ Infinity Chennai Limited has ceased to be a subsidiary of RIPL. Therefore, going forward, the financials will not be comparable with the past financials reported.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019		
					Apr 6, 2021	Oct 9, 2020	Dec 26, 2019	Aug 30, 2019	Feb 18, 2019	Dec 13, 2018	Oct 08, 2018 Jun 06, 2018 Apr 30, 2018
1	Term Loans	Long-term	3,753.80	3,753.80	[ICRA]A- (Stable)	[ICRA]A&	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Stable)	Provisional [ICRA]AA-(SO) (Stable)
2	NCD	Long-term	1,375.00	1,382.69	[ICRA]A- (Stable)	[ICRA]A&	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Stable)	--
3	Unallocated	Long-term	--	--	--	--	--	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Stable)	--
4	NCD	Short-term	--	--	--	--	--	--	--	[ICRA]A1+	Provisional [ICRA]A1+ (SO)

&= Under watch with developing implications

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 Loans	FY2017-FY2021*	-	FY2034 @	3753.80	[ICRA]A-(Stable)
INE585I07038	NCD	Dec-2019	8.35%	Nov-2023	74.00	[ICRA]A-(Stable)
INE585I07046	NCD	Dec-2018	8.35%	Nov-2023	1301.00	[ICRA]A-(Stable)

** Represents loans sanctioned between FY2017 and FY2020*

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

***Source:** Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
RMZ Infotech Private Limited (RIPL)	Parent	Full consolidation
RMZ Ecoworld Infrastructure Private Limited (REIPL)	Fellow Subsidiary (100.00%)	Full consolidation
RMZ Azure Projects Private Limited (RAPPL)	Fellow Subsidiary (100.00%)	Full consolidation

***Source:** Company*

***Note:** ICRA has taken a consolidated view of the RIPL and its subsidiaries – REIPL and RAPPL while assigning the ratings.*

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