

August 30, 2019

## RMZ Ecoworld Infrastructure Private Limited: Long-term rating reaffirmed at [ICRA]A; outlook revised to Negative

### Summary of rated instruments

| Instrument*  | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action   |
|--------------|--------------------------------------|-------------------------------------|---|
| Term loans   | 2,603.15                             | 2,603.15                            | [ICRA]A reaffirmed; outlook revised from Stable to Negative |
| NCD          | 1,375.00                             | 1,375.00                            |   |
| Unallocated  | 457.27                               | 457.27                              |   |
| <b>Total</b> | <b>4,435.42</b>                      | <b>4,435.42</b>                     |   |

\*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 revision in outlook takes into account the increase in leverage in RIPL and REIPL, as additional debt has been raised in these entities, which has largely been utilised to fund fresh investments in upcoming projects. In addition, the Group was expected to raise equity in identified projects which would have supported reduction in the acquisition debt<sup>1</sup>. While term sheets have been signed for two transactions for total equity infusion of around Rs 2,350 crore, timely conclusion of the transactions within the indicated timelines (end of CY2019) and consequent reduction in acquisition debt will be key monitorables.

High leverage in RIPL and REIPL (gross debt outstanding of Rs 8140 crore as on June 30, 2019) 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. RIPL and REIPL are also expected to provide funding support towards servicing the coupon on the acquisition debt (outstanding of Rs 2,879 crore as on June 2019). Nonetheless, the rating draws comfort from the Group's established track record of timely refinancing and the expected growth in rentals in the medium term, which will support the refinancing ability.

The rating also draws 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. Moreover, the average rent rates in RIPL's consolidated portfolio is lower than the market rates, which should support healthy growth in income over the medium to long term as rentals gradually align with market rates. During FY2020, RIPL and REIPL are expected to report rental income of Rs 1,045 crore,

<sup>1</sup> 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. 2,879 crore is outstanding as on June 30, 2019. These entities are rated at [ICRA]BBB+ (SO) with a negative outlook.

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 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.

Going forward, RIPL's ability to maintain occupancy levels in its completed portfolio and manage the execution and market risks associated with the development portfolio would be a key rating sensitivity. Moreover, the extent of future debt/contingent liabilities being raised by RIPL and the reduction in overall consolidated debt through various equity transactions under discussion will also be a key monitorable.

## Outlook: Negative

Although, ICRA believes that RIPL and REIPL will continue to benefit from their large portfolio of stable, rent-generating assets, the revision in outlook reflects the delay in reduction in acquisition debt. The Group is also in the process of raising equity of up to Rs 2,350 crore through stake dilution in identified projects, which can help reduce the debt at the consolidated level, including acquisition debt. 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. 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.

## 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 in RIPL and REIPL have increased to around Rs 8,551 crore, of which Rs. 8140 crore is outstanding as on June 30, 2019 and Rs. 411 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. In addition, the Group was expected to raise equity in identified projects which would have supported reduction in acquisition debt. While term sheets have been signed for two transactions for total equity infusion of around Rs 2,350 crore, timely conclusion of the transactions within the indicated timelines (end of CY2019) and 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:

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. 411 crore as on date and further top up loans of around Rs. 150 crore is expected against rentals of couple of projects. 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.

### Analytical approach:

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology for Debt Backed by Lease Rentals</a>  |
| 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 Debt/ TNW (times)      | 3.9     | 5.3     |
| Total Debt/ OPBDIT (times)   | 7.9     | 9.8     |
| Interest coverage (times)    | 1.2     | 1.2     |

**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 June 30, 2019 (Rs Crore) | Date & Rating Aug-19 | Date & Rating FY2019                              |                   |                                    |                                    | FY2018                             |
|               |                         |                          |   |                      | Feb-19  | Dec-18            | Oct-18                             | Apr-18                             | Oct-17                             |
| 1 NCD         | Long Term               | 1,375.00                 | 1,364.00  | [ICRA]A (Negative)   | [ICRA]A (Stable)                                  | [ICRA]A+ (Stable) | -                                  | -                                  | -                                  |
| 2 Term Loan   | Long Term               | 2,603.15                 | 2,603.15  | [ICRA]A (Negative)   | [ICRA]A (Stable)                                  | [ICRA]A+ (Stable) | Provisional [ICRA]AA-(SO) (Stable) | Provisional [ICRA]AA-(SO) (Stable) | Provisional [ICRA]AA-(SO) (Stable) |
| 3 Unallocated | Long Term               | 457.27                   | -   | [ICRA]A (Negative)   | [ICRA]A (Stable)                                  | [ICRA]A+ (Stable) | -                                  | -                                  | -                                  |
| 4 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](http://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 |
|--------------|-----------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| INE585I07012 | NCD             | FY2019                      | 9.00%       | Dec 2023      | 1,375.00                 | [ICRA]A (Negative)         |
| n.a.         | Term loan       | FY2014                      | -           | Mar 2026      | 381.42                   | [ICRA]A (Negative)         |
| n.a.         | Term loan       | FY2017                      | -           | May 2026      | 496.02                   | [ICRA]A (Negative)         |
| n.a.         | Term loan       | FY2017                      | -           | Nov 2027      | 530.00                   | [ICRA]A (Negative)         |
| n.a.         | Term loan       | FY2017                      | -           | Jan 2030      | 497.70                   | [ICRA]A (Negative)         |
| n.a.         | Term loan       | FY2014                      | -           | Mar 2026      | 199.90                   | [ICRA]A (Negative)         |
| n.a.         | Term loan       | FY2017                      | -           | Mar 2028      | 498.11                   | [ICRA]A (Negative)         |

Source: RIPL

### 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  |

## ANALYST CONTACTS

**Shubham Jain**

+91 124 4545 306

[shubhamj@icraindia.com](mailto:shubhamj@icraindia.com)

**Mathew Kurian Eranat**

+91 80 4332 6415

[mathew.eranat@icraindia.com](mailto:mathew.eranat@icraindia.com)

**Ritika Periwal**

+91 80 4332 6412

[ritika.mundhra@icraindia.com](mailto:ritika.mundhra@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6169 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## 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](mailto:info@icraindia.com)

Website: [www.icra.in](http://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) 2556 0194/ 6606 9999

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