March 24, 2023

RMZ City Estates Private Limited: [ICRA]A- (Stable) withdrawn and [ICRA]A- (Stable) simultaneously assigned; reaffirmed for other limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	1200.00	0.00	[ICRA]A- (Stable); Withdrawn
Long-term – Fund-based – Term loan	0.00	1200.00	[ICRA]A- (Stable); Assigned
Long-term – Non-fund based	0.00	29.69	[ICRA]A- (Stable); reaffirmed
Long-term – Unallocated	50.00	20.31	[ICRA]A- (Stable); reaffirmed
Total	**1250.00**	**1250.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for RMZ City Estates Private Limited (RCEPL) factors in the healthy occupancy of 100% in the office property, RMZ Star Tech (developed by RCEPL), in Koramangala, Bengaluru. The rating considers the prime location of the property and the reputed profile of the tenants, which include Accenture Solutions Private Limited (Accenture). The rating draws comfort from the maintenance of a debt service reserve account (DSRA) equivalent to three months debt obligations for the rated lease rental discounting (LRD) loan. In FY2022, the Prestige Group (erstwhile partner in this entity) sold their ownership to a company affiliated to Canada Pension Plan Investment Board (CPPIB), resulting in a 51% stake of CPPIB in RCEPL. The rating considers the track record of RCEPL's promoters in the commercial real estate segment. The RMZ Group is one of the leading developers of commercial real estate, with operations in Bengaluru, Chennai and Hyderabad. ICRA notes that the company has refinanced its term loan with an elongated payment tenure in October 2022 leading to lower annual repayments. However, the benefit is partially offset by the increase in interest rates compared to the last rating exercise.

The rating is, however, constrained by the risks associated with high tenant concentration with Accenture leasing 60% of the area. However, reputed tenant profile and long-term lease agreements with 5-10 years tenure mitigate the risk to an extent. The rating considers the high leverage with an estimated Debt/NOI of 8.0 times in FY2023. High leverage resulted in moderate debt coverage metrics on the LRD loan, with five-year average DSCR expected to remain around 1.15-1.2 times. The debt coverage ratio will be sensitive to changes in interest rates and occupancy levels.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that RCEPL will continue to benefit from the prime location of the property, healthy occupancy as well as the strong operational track record of the promoters in the commercial real estate segment.

Key rating drivers and their description

Credit strengths

Strong promoter profile with established track record in commercial real estate business – RCEPL is promoted by CPPIB and Millenia Realtors Private Limited (RMZ Group). The RMZ Group has developed nearly 20 mn sq. ft. of commercial real estate across cities such as Bangalore, Chennai, Hyderabad, Pune, Kolkata, and Gurgaon. The Group has demonstrated track record of timely completion of large-sized projects with high occupancy levels across properties.

Prime location of project – RCEPL has developed an office property called RMZ Star Tech, which has a leasable area of 13.7 lakh sq. ft. The project is located at Koramangala in Bengaluru. The property is well connected by Hosur Road as well as Outer Ring Road, which is at a distance of 2 km from the project location.

100% occupancy – The property has reached 100% leasing and rent commencement by FY2022. The firm has leased 100% of the area as on date, against 88% as of May 2021. It has a reputed tenant profile, including Accenture, which has a long lease tenure of 10 years with availability of further renewal options.

Credit challenges

High tenant concentration – RCEPL is exposed to tenant concentration with the largest tenant occupying 60% of the available space and only two other tenants occupying the balance area. However, the reputed tenant profile and long-term lease agreements with 5-10 years tenure mitigates the risk to an extent. Further, the contracted rent rates are competitive in relation to the prevailing market rate in the vicinity of the property.

High leverage and moderate debt coverage – The leverage remains high with an estimated Debt/NOI of 8.0 times as of March 2023. High leverage resulted in moderate debt coverage on the LRD loan, with five-year average DSCR expected to remain around 1.15-1.2 times. The debt coverage ratio will be sensitive to changes in interest rates and occupancy levels. However, the rating draws comfort the maintenance of a DSRA equivalent to three months debt obligations for the LRD loan.

Liquidity position: Adequate

RCEPL's liquidity profile is likely to remain adequate, given the expected stable generation of rental income from the leased area, which is sufficient to meet the debt servicing obligations. Additionally, the firm had free cash balances of Rs. 33.1 crore as on March 10, 2023, besides DSRA equivalent to three months of debt obligations for the LRD loan.

Rating sensitivities

Positive factors – The rating can be upgraded if the company is able to sustain high occupancies and improve the debt coverage and leverage metrics. Specific credit metrics that could lead to a rating upgrade include five-year average DSCR greater than 1.25 times on a sustained basis.

Negative factors – Downward pressure on the rating could arise if there is any material decline in occupancy levels or significant increase in indebtedness resulting in weakening of debt coverage and leverage metrics. Specific credit metric for a downgrade includes five-year average DSCR remaining less than 1.1 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of RCEPL

About the company

RCEPL is a private limited company, which is held by CPPIB and Millennia Realtors Private Limited in a 51:49 ratio. In FY2022, the Prestige Group (erstwhile partner in this entity) sold their ownership to a company affiliated to CPPIB. The company has developed a commercial office property with a leasable area of 13.7 lakh sq. ft. called RMZ Star Tech, in Koramangala, Bengaluru. The firm has leased 100% of the available area as on date.

Key financial indicators (audited)

RCEPL	FY2021	FY2022
Operating income	47.8	119.0
PAT	-80.0	-37.3
OPBDIT/OI	38.6%	90.6%
PAT/OI	NM	-31.4%
Total outside liabilities/Tangible net worth (times)	0.9	11.3
Total debt/OPBDIT (times)	52.2	18.1
Interest coverage (times)	0.3	1.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore
Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 10, 2023 (Rs. crore)	Date & Rating in		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Mar 24, 2023	June 24, 2022	May 25, 2021	April 08, 2020	-
1	**Term Loans**	Long-term	1,200.00	1051.0	[ICRA]A- (Stable)	-	-	-	-
2	**Term Loans**	Long-term	1,200.00	0	[ICRA]A- (Stable) withdrawn	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
3	**Unallocated**	Long-term	20.31	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
4	**Non-fund based Limits**	Long-term	29.69	-	[ICRA]A- (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term Loan	Simple
Long term – Unallocated	Not Applicable
Long-term – Non-fund based Limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan-I**	Nov 2022	NA	FY2038	1200.0	[ICRA]A-(Stable)
NA	**Term loan-II**	Jul 2021	NA	FY2031-FY2032	1200.0	[ICRA]A-(Stable); Withdrawn
NA	**Non-fund based limits**	-	-	-	29.69	[ICRA]A-(Stable)
NA	**Unallocated**	-	-	-	20.31	[ICRA]A-(Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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