May 28, 2024

RMZ City Estates Private Limited: Rating upgraded to [ICRA]A (Stable)

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	1200.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Long-term – Non-fund based	29.69	29.69	
Long-term - Unallocated	20.31	20.31	
Total	**1250.00**	**1250.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for RMZ City Estate Private Limited (RCEPL) factors in the improvement in its debt protection metrics on the back of sustained healthy occupancy levels, increase in NOI, supported by rental escalations and reduction in debt. The company has been able to sustain 100% occupancy levels since January 2022, with reputed tenant profile and timely rental escalations. With the repayment of debt as per amortisation schedule, the leverage (debt/NOI) is estimated to remain healthy at 6.4 times as of March 2024, which is expected to improve to around 6 times as of March 2025. Consequently, the debt coverage metrics are likely to remain comfortable with five-year DSCR (FY2025 – FY2029) above 1.25 times. The rating considers the asset's favourable location in Koramangala, Bengaluru, having good infrastructure and connectivity, thereby enhancing its marketability. The rating draws comfort from the presence of strong promoters, RMZ Group and CPPIB Group, wherein 49% stake is held by the RMZ Group and the remaining 51% stake is held by the CPPIB Group. The RMZ Group has a strong execution track record and is one of the leading players in the commercial real estate segment in Bengaluru. It has developed over 20 million square feet (msf) of area across several cities.

The rating, however, is constrained by exposure to high tenant concentration risk in the asset, with two tenants occupying 60% and 40% of the total area. Nonetheless, the reputed tenant profile, along with long lease tenure as well as investments made by the tenants towards fitouts mitigate the risk to an extent. The rating factors in the single asset nature of the special purpose vehicle (SPV) and the dependence on revenues from a single property, exposing it to asset concentration risk. The company remains exposed to the inherent cyclicality in the real estate industry and is susceptible to external factors. The rating notes the vulnerability of its debt coverage metrics to factors such as changes in interest rates or reduction in occupancy levels.

The Stable outlook on the rating reflects ICRA's expectation that the company will continue to benefit from healthy occupancy levels and expected improvement in debt protection metrics with no plans to raise any additional debt.

Key rating drivers and their description

Credit strengths

Healthy occupancy and adequate debt protection metrics – The company has been able to sustain 100% occupancy levels since January 2022, given its reputed tenant profile and timely rental escalations. With the repayment of debt as per amortisation schedule, the leverage (debt/NOI) is estimated to remain healthy at 6.4 times as of March 2024, which is expected to improve to around 6 times as of March 2025. Consequently, the debt coverage metrics are likely to remain comfortable with five-year DSCR (FY2025 – FY2029) above 1.25 times.

Strong promoter profile with established track record in commercial real estate business – RCEPL is promoted by the RMZ Group and the CPPIB Group, wherein 49% stake is held by the RMZ Group and the remaining 51% stake is held by the CPPIB Group. The RMZ Group has a strong execution track record and is one of the leading players in the commercial real estate segment in Bengaluru. It has developed over 20 msf of commercial real estate space across Bengaluru, Chennai, Hyderabad, Pune, Kolkata and Gurgaon. The Group has a long track record of timely completion of large-sized projects with high occupancy levels across its properties. The strong promoter groups and their demonstrated track record in commercial real estate development lends healthy financial flexibility to RCEPL.

Favourable asset location – The project is favourably located in Koramangala, Bengaluru, which is characterised by good infrastructure and connectivity, enhancing its marketability.

Credit challenge

High tenant concentration and asset concentration risks – RCEPL is exposed to high tenant concentration risk in the asset, with two tenants occupying 60% and 40% of the total area. Nonetheless, the reputed tenant profile, along with long lease tenure as well as investments made by the tenants towards fitouts mitigate the risk to an extent. The rating also factors in the single asset nature of the SPV and the dependence on revenues from a single property, exposing it to asset concentration risk.

Exposure to cyclicality in commercial real estate – The company remains exposed to the inherent cyclicality in the real estate industry and vulnerability to external factors. The rating notes the vulnerability of its debt coverage metrics to factors such as changes in interest rates or reduction in occupancy levels.

Liquidity position: Adequate

RCEPL's liquidity profile is adequate, given the expected stable generation of rental income from the leased area. The company has principal repayment of Rs. 33.3 crore in FY2025, which can be comfortably serviced through estimated cash flow from operations. Further, it had free cash and liquid investments of Rs. 98.4 crore as on February 29, 2024, 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 material reduction in indebtedness resulting in improvement in the debt protection metrics. Specific credit metrics that could lead to a rating upgrade include Total debt/NOI lower than 5.5 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 1.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty – Lease Rental Discounting (LRD)
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

RCEPL is a private limited company held by CPPIB and Millenia Realtors Private Limited in a 51:49 ratio. In FY2022, the Prestige Group (erstwhile partner) sold their ownership in this entity to a company affiliated to CPPIB. The company has developed a commercial office property with a leasable area of 1.37 msf, called RMZ Star Tech, in Koramangala, Bengaluru. The building is fully leased as on date.

Key financial indicators (audited)

RCEPL	FY2022	FY2023	H1FY2024*
Operating income	119.0	155.3	87.2
PAT	-37.3	254.3	28.7
OPBDIT/OI	90.6%	84.4%	84.9%
PAT/OI	-31.4%	163.8%	32.9%
Total outside liabilities/Tangible net worth (times)	4.4	2.3	1.4
Total debt/OPBDIT (times)	14.5	9.9	7.3
Interest coverage (times)	1.2	1.5	2.3

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

			Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Feb 29, 2024 (Rs. crore)	Date & Rating in	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
					May 28, 2024	-	March 24, 2023	June 24, 2022	May 25, 2021
1	**Term loans**	Long-term	1,200.00	1018.6	[ICRA]A (Stable)	-	[ICRA]A- (Stable)	-	-
2	**Non-fund based limits**	Long-term	29.69	-	[ICRA]A (Stable)	-	[ICRA]A- (Stable	-	-
3	**Unallocated**	Long-term	20.31	-	[ICRA]A (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
4	**Term loans**	Long-term	-	-	-	-	[ICRA]A- (Stable) withdrawn	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

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

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
-	**Term loan**	FY2023	NA	FY2038	1200.0	[ICRA]A (Stable)
-	**Non-fund based limits**	-	-	-	29.69	[ICRA]A (Stable)
-	**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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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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