July 13, 2022 (Revised)

TVS Industrial & Logistics Parks Private Limited: Long-term rating upgraded and Short-term Rating Reaffirmed & withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	712.0	463.0	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Stable)
Long-term fund-based facilities	20.0	45.0	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Stable)
Short-term fund-based facilities	18.0	0.0	[ICRA]A1; Reaffirmed and withdrawn
Total	**750.0**	**508.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade considers the increase in scale of operations, while maintaining high occupancy in the existing and new properties of TVS Industrial & Logistics Parks Private Limited (TVSILP), which is estimated to support the financial risk profile. As on March 31, 2022, TVSILP, on a consolidated basis, had an operational warehousing/logistics park space of 5.1 million square feet (msf), which is nearly fully occupied. TVSILP generates steady rental income from the same, which is expected to increase with completion of the under-construction space in FY2023, most of which is pre-leased. Notwithstanding the leverage (total debt to annualised rental) of 7.1 times as on March 31, 2022, the debt service coverage ratio (DSCR) is supported by the long tenure of the debt, resulting in an estimated DSCR in the range of 1.25 to 1.35 times during FY2023 to FY2027. The CDC Group PLC invested Rs. 250 crore in the company in March 2021. The proceeds from the same were/are being used to fund the expansion plans. ICRA takes comfort from the CDC Group PLC's commitment as a long-term investor to provide additional need-based financial support to TVSILP.

The rating continues to factor in TVSILP's strong parentage, with a ~30% stake held by the TVS Group (on a fully diluted basis post conversion of the CDC Group investment into equity; CDC Group to hold approximately 37.6% stake in TVSILP), and the associated financial and operational flexibility. The rating notes TVSILP's extensive experience, its established position in warehouse/logistics parks construction and leasing, the favourable locations of its parks and the reputed client profile. ICRA considers the steady diversification of TVSILP's customer profile. The steady business from one of its shareholders (TVS Supply Chain Solutions Limited (TVSSCS)) provides comfort. Further, most of its clients are renowned and established companies, thus mitigating the credit risks associated with default in contractual obligations or vacancies leading from closure / shrinkage of client business. TVSILP's overall occupancy increased to 99.9% as on June 30, 2022 from 98.7% as on March 31, 2021, even as the leasable area increased to 5.1 msf from 2.9 msf.

ICRA notes TVSILP's plans to achieve an operational leasable area of ~7.0 msf by FY2024 from 5.1 msf operational at present, with additional 0.7 msf under advanced stage of construction. As a part of the expansion plan, it is executing projects at Hosur, Red Hills, Madurai and Sulur in Tamil Nadu and Jaipur in Rajasthan. While it has the requisite expertise to build and lease out industrial spaces, these projects are in various stages of development and expose the company to project execution risks. The company proceeds with warehouse construction only after confirmation from its anchor customer, which mitigates the offtake risk to a large extent, in most of the projects. TVSILP's ability to timely operationalise these projects at adequate rental rates is critical for improving its credit metrics and is a key monitorable. The rating remains sensitive to any large debt-funded expansion/acquisitions, adversely impacting its credit profile. ICRA will continue to monitor the developments in this regard on a case-to-case basis.

The Stable outlook reflects ICRA's expectations that TVSILP will benefit from the strong tenant profile across its warehouses and generate stable cash flows from the operational warehouses and maintain comfortable coverage metrics.

ICRA has withdrawn the [ICRA]A1 rating assigned to the short-term loans as there is no amount outstanding against the same and in accordance with ICRA's policy on withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Strong parentage with financial and operational flexibility as part of the Group – The TVS Group, with revenues of more than $10 billion, is an automotive conglomerate, comprising companies involved in manufacturing two-wheelers, three-wheelers and auto components, distribution, automobile dealership, and finance, among others. TV Sundaram Iyengar & Sons (TVS & Sons; rated [ICRA]AA/[ICRA]A1+; ratings withdrawn), established in 1911, is the Group's parent company and an automobile distribution company in India. TVSILP is a 50:50 joint venture (JV) between TVSSCS (a subsidiary of TVS & Sons), the Group's logistics arm, and Ravi Kumar Swaminathan & Associates. Post funds infusion from CDC Group PLC, on a fully diluted basis, TVSSCS and Ravi Kumar Swaminathan & Associates hold ~30% stake each, with CDC holding ~37.6% and the balance stake closely held by management individuals. However, the management control continues with the existing shareholders, i.e., prior to funds infusion by CDC. Being a part of the TVS Group, TVSILP enjoys an established and reputed brand name, along with significant financial and operational flexibility.

Improvement in scale of operations and asset diversification while maintaining high occupancy – TVSILP has added an operational area of ~2.2 msf in FY2022 across various locations. Additionally, the company is looking to expand in the existing locations and start operations at new locations. Increase in scale of operations at the existing as well as new locations and expansion in new geographies provides comfort. As on June 30, 2022, it witnessed high occupancy of 99.9%, improved from 98.7% as on March 31, 2021. TVSILP enters into long-term lease agreements with customers, typically for 5-10 years duration. Most of the contracts have a lock-in of at least three years, thus providing a steady commitment of cash flows from the existing assets. High occupancy and long-term lease agreements ensure steady cash inflows.

Comfortable financial risk profile – The financial risk profile is supported by the Rs. 250-crore investment made by the CDC Group PLC in March 2021. The proceeds from the same were/are being used to fund the expansion plans. Notwithstanding its current leverage (as measured by total debt to annualised rental) of 7.1 times (net debt to annualised rental of 6.2 times), as on March 31, 2022, the leverage levels are expected to reduce due to an increase in the operational area and rentals from new properties, which will be completed in FY2023. Further, aided by the long tenure of the debt availed, the DSCR during FY2023 to FY2027 is estimated to range within 1.25 to 1.35 times.

Credit challenges

Exposed to lessee concentration risk and lease renewal risks – The company is exposed to tenant concentration risk as the top five tenants occupy 75% of the operational area. Hence, if any large tenant decides to vacate, it may impact TVSILP's cash flows. However, ICRA, derives comfort from the strong profile of the tenants and the demonstrated track record of TVSILP in maintaining nearly 100% occupancy over the years.

Project execution risk with plans to set up additional space over the medium term – At present, the company plans to add leasable warehouse/logistics park space of 1.9 msf by FY2024. As a part of the expansion plan, TVSILP is executing projects at Hosur, Red Hills, Madurai and Sulur in Tamil Nadu and Jaipur in Rajasthan. It has signed LOIs/ lease agreements for most of the under-construction and planned projects. Further, the other critical factors associated with these projects (land and funds) are already in place. However, considering that these projects are at different phases of execution, TVSILP is exposed to project execution risks. The company's ability to timely operationalise these projects at adequate rental rates is critical for achieving improvement in its credit metrics and is a key monitorable.

Liquidity position: Adequate

As on March 31, 2022, TVSILP had an unencumbered cash balance of Rs. 90.67 crore and an undrawn sanctioned debt of ~Rs. 158 crore. These, along with internal cash generation, are likely to be adequate to cover the expected capex (Rs. 146.0 crore in FY2023 and Rs. 165 crore in FY2024) and debt repayments (principal payment of Rs. 18.2 crore and Rs. 24.2 crore in FY2023 and FY2024, respectively, for the existing debt) over the near to medium term. The company maintains a debt service reserve account (DSRA) equivalent to three months of principal and interest obligations.

Rating sensitivities

Positive factors - Timely completion of under-construction and planned projects, along with demonstration of strong leasing at adequate rentals, on a sustained basis, will be a positive. Specific credit metric for a rating upgrade would be debt/rental of less than 5 times on a sustained basis.

Negative factors - The rating may be downgraded in case of an increase in vacancy levels or/and higher-than-anticipated debt levels leading to weakening of the financial risk profile. Specific credit metric for a rating downgrade would be five-year DSCR of less than 1.25 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology- Lease Rental Discounting Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of TVSILP. As on March 31, 2022, the company had six SPVs, which are enlisted in Annexure II.

About the company

TVS Industrial & Logistics Parks Private Limited (erstwhile TVS Infrastructure Private Limited), a part of the TVS Group, was set up in 2005 to support the Group's supply chain management by providing core industrial infrastructure for manufacturing, distribution and sales. TVSILP is a 50:50 JV between TVSSCS, the logistics arm of the Group, and Ravikumar Swaminathan & Associates. However, with funds infusion of Rs. 250 crore from CDC Group PLC, on a fully-diluted basis, TVSILP and Ravikumar Swaminathan & Associates hold ~30% each, CDC Group PLC hold ~37.6% and the remaining share is held by individuals. TVSILP creates industrial infrastructure facilities such as industrial and warehouse buildings, and logistics infrastructure parks. From a public limited company, it was converted into a private limited company in December 2015, and the name was changed to TVSILP in FY2018.

Key financial indicators (consolidated, audited)

Consolidated	FY2021	FY2022
Operating income	59.0	102.4
PAT	4.7	7.2
OPBDIT/OI	83.2%	82.5%
PAT/OI	8.0%	7.0%
Total outside liabilities/Tangible net worth (times)	2.2	2.7
Total debt/OPBDIT (times)	12.1	8.8
Interest coverage (times)	1.6	1.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations

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

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 of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Jul 13, 2022	Apr 14, 2021	Sep 25, 2020	Mar 27, 2020	Jul 29, 2019
1	**Term Loans**	Long term	463.0	412.2	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Stable)**
2	**Fund Based Limits**	Long term	45.0	-	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Stable)**
3	**Fund based Limits**	Short term	0.0	-	**[ICRA]A1; Withdrawn**	**[ICRA]A1**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Long-term fund-based facilities	Simple
Short-term fund-based facilities	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan-1**	March 2016	NA	December 2024	16.0	[ICRA]A+ (Stable)
NA	**Term loan-2**	August 2021	NA	December 2037	220.0	[ICRA]A+ (Stable)
NA	**Term loan-3**	November 2021	NA	December 2037	185.0	[ICRA]A+ (Stable)
NA	**Proposed term loan**	NA	NA	NA	42.0	[ICRA]A+ (Stable)
NA	**Cash credit/Overdraft facility**	NA	NA	NA	45.0	[ICRA]A+ (Stable)
NA	**Short-term fund-based**	NA	NA	NA	18.0	[ICRA]A1; reaffirmed and withdrawn

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership*	Consolidation Approach
Jagannath Logistics & Industrial Parks Private Limited	100.0%	Full Consolidation
Maragathammbal Industrial and Logistics Park Private Limited	100.0%	Full Consolidation
Marudhamalai Industrial & Logistics Parks Private Limited	100.0%	Full Consolidation
Siruvapuri Murugan Industrial and Logistics Private Limited	100.0%	Full Consolidation
Jaibalaji Industrial and Logistics Parks Private Limited	100.0%	Full Consolidation
Sri Meenatchi Industrial and Logistics Park Private Limited	100.0%	Full Consolidation

**As on March 31, 2022*

Corrigendum

Document dated July 13, 2022 has been corrected with revision as detailed below:

- "Liquidity Position", Pg 3: Debt repayment obligations revised to include only the principal payments in place of principal + estimated interest obligations. Principal repayment obligations are Rs. 18.2 crore and Rs. 24.2 crore in FY2023 and FY2024, respectively, for the existing debt.

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