

April 14, 2021

## Marudhamalai Industrial & Logistics Parks Private Limited: Ratings upgraded; Outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans <sup>1</sup>	105.0	105.0	[ICRA]A (Stable) Upgraded from [ICRA]A- (Negative); Outlook revised to Stable from Negative
<b>Total</b>	<b>105.0</b>	<b>105.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

While assigning the rating, ICRA has taken a consolidated view of TVS Industrial & Logistics Parks Private Limited (TVSILP), with Marudhamalai Industrial & Logistics Parks Private Limited (erstwhile Marudhamalai Industrial and Logistics Parks LLP) and four other special purpose vehicles (SPVs).

The revision in the ratings for TVS Industrial & Logistics Parks Private Limited (TVSILP) takes into account the 37.6% stake purchase (on a fully diluted basis) by the CDC Group PLC through infusion of Rs. 250 crore by way of convertible instruments in March 2021. While this has resulted in an improvement in TVSILP's capital structure, ICRA takes further comfort from the commitment by CDC Group PLC that it is a long-term investor and will endeavour to provide additional need-based financial support to TVSILP, if required. The fund infused are proposed to be used for growth capital, as well as partial payment of high cost debt. The ratings continue to factor in TVSILP's strong parentage, with a ~30% stake by the TVS Group (on a fully diluted basis post conversion of the above investment into equity), and the associated financial and operational flexibility. The ratings factor in TVSILP's extensive experience, its established position in warehouse/logistics parks construction and leasing, the favourable locations of its parks, and its reputed client profile. ICRA also considers the steady diversification of TVSILP's customer profile primarily from the TVS Group companies to other customers, leading to lesser concentration risk. Moreover, the steady business it receives from one of its promoters (TVS Supply Chain Solutions Limited (TVSSCS)) and other Group companies provides comfort. Furthermore, most of TVSILP's clients are renowned and established players, thus mitigating the credit risks associated with default in contractual obligations or vacancies leading from closure / shrinkage of client business. ICRA also notes that the company's policy of proceeding with warehouse construction only after the receipt of a letter of intent (LOI) from its anchor customer mitigates the offtake risk to a large extent in most of the projects. The business model, which involves long-tenure agreements with clients, ensures long-term commitment of cash inflows. ICRA notes that TVSILP's overall occupancy increased to 98.7% as on March 31, 2021, compared to 95.7% as on June 30, 2020 due to signing of letter of intents (LOI) and lease agreements with new customers in H2 FY2021.

ICRA notes TVSILP's aggressive expansion plans to a leasable area of ~5.9 million square feet (sft) by June 30, 2022, against current leasable area of 2.9 million sft with further 0.4 million under advance stage of construction completion and handover. As a part of the expansion plan, it is executing projects (warehouse / spare parts distribution hubs) at Hosur (Tamil Nadu), Red Hills (Tamil Nadu), Jaipur (Rajasthan), Neelmangala (Karnataka), Bhubaneswar (Odisha) and Cuttack (Odisha). Though it possesses the requisite expertise to build and lease out industrial spaces, these projects, being in various stages of execution, expose the company to project execution risks. Furthermore, TVSILP's ability to timely lease out these projects at remunerative rates is critical for achieving improvement in its credit metrics and is a key monitorable. The ratings remain sensitive to any further large debt-funded expansion / acquisitions, adversely impacting the company's credit profile. ICRA will continue to monitor the developments in this regard on a case-to-case basis.

<sup>1</sup> The term loan amount is sub-limit of the Rs. 250 crore term loan sanctioned to TVS Industrial & Logistics Parks Private Limited

The Stable outlook reflects ICRA's expectations that TVSILP will be able to further strengthen its balance sheet supported by incremental cash flows from the new projects.

## Key rating drivers and their description

### Credit strengths

**Funds infusion from CDC Group PLC resulting in an improved capital structure; CDC is also committed to provide additional need-based financial support, if required** – The company received funds infusion of Rs. 250 crore from CDC Group PLC on March 10, 2021 in the form of convertible instruments. This has resulted in an improvement in its capital structure. It has already repaid the inter-corporate deposit (ICD) of Rs. 15 crore, which was due by March 31, 2021 from the funds infused, and would be paying off another bridge loan of Rs. 40 crore, which has higher cost of debt than the bank debt, as per the normal scheduled repayment dates. Most of the balance amount will be utilised for the planned projects. ICRA takes further comfort from the commitment by CDC Group PLC that it is a long-term investor and will endeavor to provide additional need-based financial support to TVSILP, if required.

**Strong parentage with financial and operational flexibility as part of Group** – The TVS Group, with revenues of more than \$10 billion, is an automotive conglomerate, comprising companies involved in manufacturing of 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+, on watch with developing implications), 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 the funds infusion from CDC Group PLC, on a fully-diluted basis, TVSSCS and Ravi Kumar Swaminathan & Associates will hold ~30% stake each, with CDC holding 37.6% and the balance stake by closely held individuals. However, the management control will continue 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.

**Strong business synergies with Group companies** – Since incorporation, TVSILP had been deriving considerable part of its revenues from TVS Group companies, especially from TVSSCS. However, the ratio of TVS Group in the overall business of TVSILP, has been reducing steadily. Irrespective of this decline, TVSILP continues to draw synergies while being a part of the TVS Group, and specially, owing to TVSSCS, which operates in the related business of third-party logistics. TVSSCS is an automotive transportation and logistics service provider (inbound / outbound logistics and warehousing). It does not own any of the infrastructure, which are hired / leased from service providers. TVSILP is one such vendor for TVSSCS, and for other companies in the TVS Group. Though TVSILP does not have any written agreement with the Group companies for outsourcing of work, considering the Group's management control over the company, it can be safely assumed that a reasonable portion of the infrastructure creation related requirement of the Group would be extended to TVSILP.

**Business model ensures long-term commitment of cash inflows** – TVSILP enters into long-term lease agreements with customers, typically for 5-10 years duration. The company tries to ensure a payback period of seven to eight years for arriving upon the rentals to be charged (when compared to the term loan tenure of 12-15 years for its new projects). Most of the contracts have a lock-in of at least three years, thus ensuring a steady commitment of cash flows from the existing assets. The growth in cash flows would depend upon the escalation clause (typically 5% per annum) and the company's ability to add assets regularly. The regularity of cash flows would be contingent upon its ability to either renew the agreements with the existing customers or find new customers at the expiry of each lease. TVSILP's overall occupancy increased to 98.7% as on March 31, 2021 from 95.7% as on June 30, 2020 due to the recent LOIs and agreements signed with different customers. Overall, TVSILP has, over the years, demonstrated its ability in maintaining a healthy occupancy of its assets.

### Credit challenges

**Ongoing debt-funded capex leading to moderation in the debt coverage indicators** – The warehouse construction projects are capital-intensive in nature. The company incurred ~Rs. 247 crore of capex in FY2021, funded mainly through debt. Thus,

its leverage ratio weakened, with Total Debt/OPBDITA<sup>2</sup> of 12.4 times and gearing of 7.6 times as on September 30, 2020 (as per provisional financials), compared to Total Debt/OPBDITA of 10.4 times and gearing of 6.4 times as on March 31, 2020. With the Rs. 250 crore of fund infusion from CDC Group PLC in March 2021, TVSILP's capital structure has witnessed an improvement. However, the debt levels remain high. Moreover, it has a pending construction cost of ~Rs. 438.5 crore, to be incurred over FY2022 and FY2023, which will be funded through the funds infusion from CDC, receipt of additional security deposits from the customers, undrawn term loans of Rs. 94 crore as on March 31, 2021 and an additional term loan (yet to be sanctioned) of Rs. 100 crore. ICRA expects that TVSILP will be able to strengthen its balance sheet, supported by incremental cash flows from the new projects.

**Project execution risks due to aggressive medium-term expansion plan; ability to lease out future projects at remunerative rates is a key monitorable** – With a current leased-out warehouse space of nearly 2.9 million sft across seven locations, with further 0.4 million under advance stage of construction completion and handover, TVSILP's scale of current operations is moderate. At present, the company has embarked on an aggressive expansion plan to achieve leasable warehouse/logistics park space of ~5.9 million sft by June 30, 2022. As a part of the expansion plan, TVSILP is executing projects (warehouse/spare parts distribution hubs) at Hosur (Tamil Nadu) and Redhills (Tamil Nadu). Besides these projects, it has completed land registration in Jaipur, and has identified land at few other locations such as Neelmangala (Karnataka) and Cuttack (Odisha), in order to expand to 5.9 million sft. Even though the company has signed LOIs/ lease agreements for few of the under construction and planned projects, since all these projects are at different phases of execution, it exposes TVSILP to some degree of project execution risks. Furthermore, the company's ability to timely lease out these projects at remunerative rates is critical for achieving improvement in its credit metrics and is a key monitorable.

## Liquidity position: Adequate

TVSILP had a total debt of Rs. 556.9 crore outstanding as on January 31, 2021. As it has been funding the capex primarily through debt, the company witnessed an increase in interest expenses with elevated debt levels, pressurising the cash flows and liquidity. However, the liquidity position is supported by undrawn sanctioned debt of ~Rs. 94 crore, along with the fund infusion of Rs. 250 crore in March 2021. These, along with additional security deposits from the planned projects, proposed (but yet to be sanctioned) term loan and internal cash generation are likely to be adequate to cover the capex (Rs. 387.0 crore in FY2022 and Rs. 51.5 crore in FY2023) and repayments (Rs. 40.5 crore in FY2022 and Rs. 45.8 crore in FY2023) over the near to medium term.

## Rating sensitivities

**Positive factors** – ICRA could upgrade TVSILP's ratings if the cumulative debt service coverage ratio (DSCR) (on a consolidated basis) is above 1.5 times on a sustained basis. Furthermore, 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.

**Negative factors** – ICRA could downgrade TVSILP's ratings in case of higher-than-anticipated capex resulting in weakening of credit metrics. Negative pressure on the ratings could also arise if cumulative DSCR of TVSILP (consolidated) falls below 1.25 times on a sustained basis.

<sup>2</sup> Operating profit before depreciation, interest, tax and amortisation

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Debt Backed by Lease Rentals (Lease Rental Discounting Loans)</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TVSILP. As on March 31, 2020, the company had five special purpose vehicles, that are enlisted in Annexure-2.

## About the company

Marudhamalai Industrial & Logistics Parks Private Limited (erstwhile Marudhamalai Industrial and Logistics Parks LLP) was incorporated in August 2018, as a wholly-owned subsidiary of TVSILP. It is in the business of providing industrial infrastructure and warehousing solutions. It has a leasable area of ~0.7 million sft at Coimbatore (Tamil Nadu).

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 will hold ~30% each, CDC Group PLC will hold 37.6% and the balance 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.

As per the provisional financials for H1 FY2021 (consolidated), TVSILP reported a profit after tax (PAT) of Rs. 1.1 crore on an operating income (OI) of Rs. 26.6 crore.

## Key financial indicators (Consolidated, audited)

	FY2019	FY2020
Operating Income (Rs. crore)	42.2	55.0
PAT (Rs. crore)	3.7	4.1
OPBDIT/OI (%)	72.6%	77.4%
PAT/OI	8.7%	7.5%
Total Outside Liabilities/Tangible Net Worth (times)	5.3	8.0
Total Debt/OPBDIT (times)	9.2	10.4
Interest Coverage (times)	1.9	1.7

Source: Company, ICRA research; All ratios as per ICRA calculations

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

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					14-Apr-2021	25-Sep-20	-	-
1	Term Loans <sup>3</sup>	Long-term	105.0	77.5	[ICRA]A (Stable)	[ICRA]A- (Negative)	-	-

\* as on January 31, 2021

## 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)

<sup>3</sup> The term loan amount is sub-limit of the Rs. 250 crore term loan sanctioned to TVS Industrial & Logistics Parks Private Limited

#### 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 Loan <sup>4</sup>	Jan-19	NA	Feb-34	105.0	[ICRA]A (Stable)

**Source:** Marudhamalai Industrial & Logistics Parks Private Limited

#### Annexure-2: 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

\*As on March 31, 2020

<sup>4</sup> The term loan amount is sub-limit of the Rs. 250 crore term loan sanctioned to TVS Industrial & Logistics Parks Private Limited

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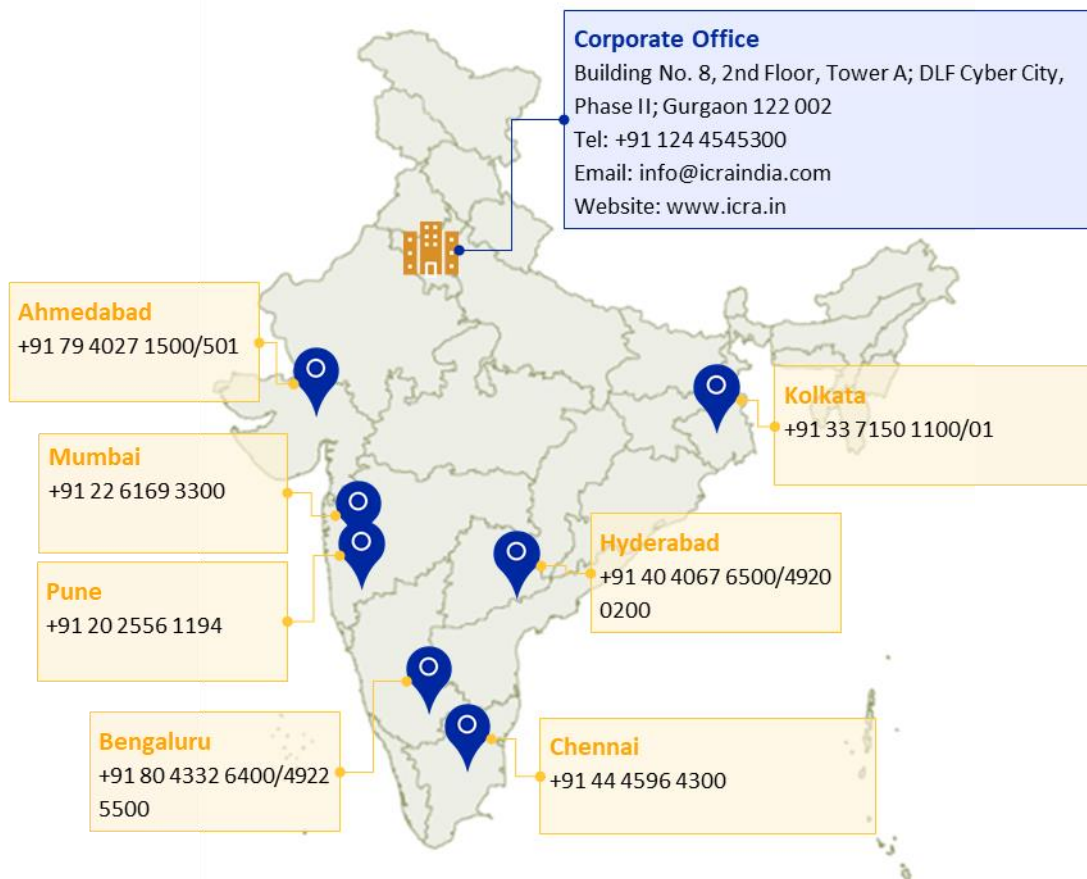


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