

September 30, 2021

NV Projects Private Limited: [ICRA]A- (Stable); rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Lender Name	Rating Action
Long Term – Non-Convertible Debentures	193.0	193.0	Deutsche Bank AG	[ICRA]A- (Stable); reaffirmed
Long Term – Fund Based – Term Loan	52.0	52.0	Deutsche Bank AG	[ICRA]A- (Stable); reaffirmed
Total	245.0	245.0		

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the rating and the outlook takes into account the strong business profile of NV Projects Private Limited's (NVPPL) commercial property, named Weikfield IT Citi Info Park, located in Viman Nagar, Pune. The Xander Group (a Singapore-based private equity group) completed acquisition of the assets in August at an enterprise value of approximately Rs. 900 crore, funded through Rs. 370 crore of bank debt, with the balance being funded by sponsor funds. The rating derives comfort from the asset's favourable location and high quality of development. Weighted average lease rentals have also witnessed an increase of 7% since September 2020, with new leasing/re-leasing happening at favourable rates. Although 81% of the area is occupied by the top five tenants alone, which leads to high tenant concentration risks, ICRA notes that the tenants comprise reputed business houses, such as Maersk and WNS, and most key tenants having been occupiers in the property since inception, which moderates counterparty and vacancy risks to a considerable extent.

Moreover, low average rentals relative to prevailing market rates for the micro-market, as well as investments made by tenants towards fit-outs also aid tenant stickiness to an extent. Parentage of The Xander Group (a Singapore-based private equity group), which has an established track record of acquiring, developing and leasing assets in India, has further supported the operational profile of the asset. The debt, being availed in the form of non-convertible debentures (NCDs) and term loans (TLs), is favourably structured with ballooning repayment pattern, which, together with the competitive cost of borrowing and adequate lease rental generation (despite the recent drop in occupancy), is likely to keep the debt coverage metrics on external debt at a healthy level over the tenure of the debt. Further, the presence of a debt service reserve account (DSRA) equivalent to one month of interest and principal repayment, an escrow structure, DSCR and occupancy linked cash traps provide additional comfort. ICRA also notes that sponsor funds, in the form of compulsorily convertible debentures (CCDs), will remain subordinated to the bank debt, and will not have any default calling rights. The company has also maintained adequate liquid balances, amounting to Rs. 30.9 crore as on March 31, 2021.

ICRA's rating is however constrained by the decline in the occupancy from 100% as on September 2020 to 88% in August 2021 due to disruption related to Covid-19 and consequent rationalisation of leased space by certain lessees and longer-than-expected time taken for re-leasing. Further, despite the fall in occupancy, the leverage and debt protection metrics have remained comfortable. The rating continues to be constrained by the modest scale of operations, which are limited to a single asset in the Pune market, thereby exposing the consolidated entity to fluctuations in a single asset/market's performance. Tenant concentration risks are also high, with the top five tenants occupying around 81% of the leasable area. Bunching of lease expiries over the next few years, with around 29% of the leased area coming up for renewal in FY2023, together with an occupancy linked cash trap/event of default covenant for the rated debt, which requires occupancy to be maintained at a minimum level of 85%, further accentuates the risks, although ICRA notes that a six-month curing period is provided to achieve the minimum occupancy level before an event of default is triggered.

ICRA also notes the exposure to refinancing risks arising from the presence of a put option on the bank debt at end of 36, 60 and 90 months from the date of debt disbursement, although the debt raising potential on rentals is expected to be sufficient for the required refinancing, should such a need arise. The company also faces prepayment risks associated with the possibility of debt acceleration upon breach of a rating-linked covenant specified in the bank sanction, although adequate cushion exists at the current rating level.

The Stable outlook on the long-term rating reflects ICRA's expectation that the credit profile of NVP will remain supported by strong parentage of the Xander Group, favourable location of the property, robust lessee profile and comfortable leverage and debt protection metrics.

Key rating drivers and their description

Credit strengths

Parentage of The Xander Group, which has an established track record of acquiring, developing and leasing assets: The Xander Group (a Singapore-based private equity group) has an established track record spanning almost 1.5 decades of acquiring and developing assets in India and putting the same on lease, which is expected to benefit GOPL as well. It's current Indian office portfolio comprises developed/under development properties and future development potential amounting to approx 12.4 mn sqft. The Group completed acquisition of Weikfield IT Citi Info Park in August 2019 at an enterprise value of approximately Rs. 900 crore, funded through Rs. 370 crore of bank debt, with the balance being funded by sponsor funds.

Favourable location and profile of asset, with 100% occupancy and competitive rental rates: Weikfield IT Citi Info Park is favourably located in Viman Nagar which is in Pune's SBD East micro-market, wherein there is healthy demand for commercial office space. The favourable location, along with the quality of development and the competitive rental rates have supported operating risk profile. Weighted average lease rentals have also witnessed an increase of 7% since September 2020, with new leasing/re-leasing happening at favourable rates. Tenants mostly comprise reputed business houses, such as Maersk and WNS, which moderates counterparty risks to a considerable extent

Favourable structure of debt: The bank debt being availed for the acquisition is favourably structured, with an extended and ballooning repayment pattern, spread over twelve years. Further comfort is drawn from the presence of an escrow mechanism which prioritizes debt repayment over any other utilization, and adequate cushion between rental receipt and EMI due dates. In addition, maintenance of a DSRA equivalent to one month's of interest and principal repayment, DSCR and occupancy linked cash traps provide additional comfort. While put options present with the lender at the end on 36 months, 60 months and 90 months results in some exposure to refinancing risks, ICRA expects the debt raising potential on rentals to be sufficient for the required refinancing, should such a need arise.

ICRA also notes that the CCDs are to remain subordinated to the bank debt, and will not have any default calling rights. The ownership of the CCDs and the equity shareholding is also expected to remain common until the time of exit of the investor.

Comfortable debt coverage metrics projected on external debt – The interest rate and elongated debt maturity profile on the debt, together with the comfortable lease rentals (despite the recent drop in occupancy) is likely to keep the cash flow cover adequate through the tenure of the loan. The cumulative consolidated DSCR over the debt tenure is estimated to be around 1.5 times.

Credit challenges

Occupancy declined from 100% in Mar-20 to 88% in Aug-21: The occupancy declined from 100% occupancy 88% in August 2021 due to disruption related to Covid-19 and consequent rationalisation of leased space by certain lessees and longer-than-expected time taken for re-leasing. Further, despite the fall in occupancy, the leverage and debt protection metrics have remain comfortable.

Modest scale of operations: NVPPL owns and manages three blocks of a single asset of 1.08 msf leased area, and hence remain susceptible to any adverse changes in the operational profile of the asset, as well in the demand-supply scenario of the particular micro market in which the asset is located. Further the company's cash flows remain susceptible to adverse changes in occupancy levels and rental rates, and the continued ability to renew leases at favourable rates as well as maintain comfortable levels of occupancy will remain essential going forward.

Tenant concentration and vacancy risks: Tenant concentration is high with 81% of the area being occupied by the top five lessees, thus exposing the company to market risks in case of any vacancy / non-renewal of lease. The risks are further accentuated by the bunching of lease expiry (~29% of the total leasable area) coming up for in FY2023. Moreover, ICRA also notes that the bank sanction also contains an occupancy linked cash trap/event of default covenant, which requires occupancy to be maintained at a minimum level of 85%, although a six-month curing period is provided to achieve the minimum occupancy level before an event of default is triggered

Exposure to refinancing risks and prepayment risks in case put options or rating-linked covenants are exercised: The lender has a put option on the debt at end of 36 months, 60 months and 90 months from the date of debt disbursement. This exposes the entity to refinancing risks, although ICRA notes that the debt raising potential on the rentals generated from the asset is expected to be sufficient for the required refinancing, should such a need arise. With a notice of at least 30 days being required prior to exercise of the put option, adequate time is also available for organizing the refinancing. The company also faces prepayment risks associated with the possibility of debt acceleration upon breach of a rating-linked covenant specified in the bank sanction, although adequate cushion exists at the current rating level.

Liquidity position: Adequate

ICRA expects NVP to generate stable cash flows from operations over the near to medium, aided by healthy occupancy and stable average lease rentals. Adequate cover (cumulative DSCR of around 1.5 times) over the repayment obligations for the bank debt, presence of a DSRA equivalent to one month of interest and principal payment, DSCR and occupancy linked cash traps and Rs. 30.9 crore cash available as on March 31, 2021 provide additional comfort.

Rating sensitivities

Positive triggers – ICRA could upgrade NVP rating in case of higher than expected cashflows generation backed by factors such as favorable re-leasing and consequent reduction of leverage on a consolidated basis over the near term. Specific credit metrics that could lead to an upgrade of rating include average DSCR over loan tenure increasing to 1.7 times on a sustained basis.

Negative triggers – Negative pressure on the rating could arise in case of higher-than-expected debt build up, leading to lower-than-expected cash cover and deterioration in leverage indicators. Continued decline in occupancy which enhances the risk of breach of operational covenants in the financing arrangement will also put pressure on rating. Specific credit metrics that could lead to a downgrade of rating include average DSCR over loan tenure declining below 1.30 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
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

NV Projects Private Limited own three blocks of a commercial property named Weikfield IT Citi Info Park in Viman Nagar, Pune. The property is spread over approximately 1.08 msf, divided over across 3 blocks - Block B (0.27msf), Block C (0.27 msf) and Block D (0.54 msf), and is currently 88% leased to reputed tenants. It was developed over the period 2006-12 by Vascon Engineers Limited, Pune and was acquired by New Vernon Capital Group in phases from 2005 onwards. In August, 2019, The Xander group (a Singapore-based private equity group) acquired the said companies and the underlying asset at an enterprise value of around ~Rs. 900 crore. NV Realty Private Limited (NVRPL), a group company of NVPPL, which used to own Block D (0.54 msf) in the said commercial property has been merged in NVPPL w.e.f from August 26, 2019 retrospectively pursuant to an approval order dated March 30, 2021 from Regional Director, Western Region, Ministry of Corporate Affairs. As on date the entire operations of NVRPL are merged in NVPPL including the debt outstanding.

Key financial indicators - Standalone

	FY2019	FY2020
	Audited	Audited
Operating Income (Rs. crore)	39.0	45.4
PAT (Rs. crore)	12.9	3.4
OPBDIT/OI (%)	80.2%	74.1%
PAT/OI (%)	33.0%	7.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	4.7
Total Debt/OPBDIT (times)	2.3	10.3
Interest Coverage (times)	3.1	1.3

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	Type	Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2021 (Rs. crore)	Date & Rating in September 30, 2021	Date & Rating in FY2021	Date & Rating in FY2020		
							September-2020	August-19	July-19
1	NCD	Long Term	193.0	185.44	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(SO) (Stable)	Provisional [ICRA]A-(SO) (Stable)	Provisional [ICRA]A-(SO) (Stable)
2	Term Loans	Long Term	52.0	38.24	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(SO) (Stable)	Provisional [ICRA]A-(SO) (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Non-Convertible Debentures	Simple
Long Term – Fund Based – Term Loan	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, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE00F507012	NCD	August 2019	7.43%	July 2032	193.0	[ICRA]A- (Stable)
NA	Term Loans	August 2019	7.18%	Sep 2032	52.0	[ICRA]A- (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis: NA

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Branches



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