December 07, 2022

Destination Industrial Parks Private Limited: Rating upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	10.00	10.00	[ICRA]AAA (stable); upgraded from [ICRA]AA+(Stable)
Total	**10.00**	**10.00**	

**Instrument details are provided in Annexure-1*

Rationale

IndoSpace Logistics Parks Core Pte. Ltd. (IndoSpace Core) is a joint venture between Everstone-backed real estate developer and warehousing and logistics specialist IndoSpace (2%), investor Canada Pension Plan Investment Board (CPPIB – 93%) and global investment fund manager GLP (5%). The current asset portfolio of IndoSpace Core has 13 completed industrial and logistic parks (housed under 18 special purpose vehicles (SPVs)) with a leasable area of 11.8 million square feet (mn sq ft). All 18 SPVs have the cross guarantees and cross-collateralisation for the rated loans across the SPVs aggregating to Rs. 915.8 crore (comprising term loan of Rs. 824.4 crore and overdraft of Rs. 91.4 crore) availed from same lender, HSBC. The SPVs are fully owned by the same ultimate holding company, IndoSpace Logistics Parks Core Pte Ltd. In addition to the comfort of the cross-guarantee structure, each SPV also has the flexibility to extend the surpluses to any other SPV which could be utilized for debt servicing of the other SPVs, should a need arise.

The rating upgrade factors in the improvement in the leasing of IndoSpace Core's completed area with committed occupancy of 99% as on July 31, 2022, up from 95% as on July 31, 2021. The occupancies and collections remained largely resilient supported by healthy demand from third-party logistics (3PL), e-commerce and automotive segments. Also, the leverage for the IndoSpace Core portfolio continues to remain low with a loan to asset value (LTV) of 17% as on March 31, 2022, robust Net external Debt/NOI of 1.6 times in FY2022 (PY: 2.2 times). Further, the new acquisitions are likely to be funded by a conservative debt-to-equity mix, which is expected to support low leverage going forward with net debt/NOI remaining below 2.0 times in the near to medium term.

IndoSpace Core's business profile continues to remain robust supported by the diversified portfolio of the industrial and logistics park assets under the IndoSpace Core platform. The portfolio assets are spread across four key markets of India – Pune, Chennai, Jhajjar and Bengaluru – and have a diversified tenant mix, wherein the top 10 tenants contributed to 51% of the gross rentals as on July 31, 2022. The net operating income (NOI), at a portfolio level grew by 7% YoY to Rs. 304.4 crore in FY2022 as compared to Rs. 283.3 crore in FY2021 supported of ramp up in occupancy. In FY2023, ICRA expects around 10% YoY growth in NOI led by healthy occupancy and rental escalations as per contractual terms. IndoSpace Group has a proven track record in the industrial and logistics parks segment.

The rating considers the strong financial risk profile characterised by low leverage of the portfolio and superior liquidity position. The profile of the sponsors, CPPIB and GLP Global, provides financial flexibility to the portfolio. ICRA is given to understand that the sponsors are willing to provide required support, should a need arise. IndoSpace Core has a policy of acquiring only stable rent yielding assets, which reduces the risk of weakening of the consolidated business risk profile.

The rating also factors in the healthy committed occupancy level of 100% as on July 31, 2022 (100% as on July 31,2021) for the warehousing and logistics park project housed under Destination Industrial Parks Private Limited, strong tenant profile and favourable project location in terms of infrastructure and proximity to industrial hubs of Pune and Chakan. Any material decline in occupancy or rentals adversely affecting the credit metrics of Destination Industrial Parks Private Limited will be a key monitorable.

The rating, however, continues to remain constrained by exposure to interest rate risk as well as vulnerability of the portfolio to lease expiry risk and market risks. Nonetheless, ICRA notes that the projected debt coverage metrics (after factoring in the recent rate hikes) are expected to remain robust. The portfolio has over 40% of the area due for renewal in FY2024-2025 which exposes it to vacancy risks. The risk is mitigated by the IndoSpace's strong relationship with tenants and demonstrated track record of renewal/addition of leases in the past. The rating is also constrained by refinancing risk as the current debt structure has a door-to-door tenure of five years, wherein 76.3% of the debt has to be paid as bullet repayment on April 16, 2025 (FY2026). However, ICRA draws comfort from the company's financial flexibility arising from the low leverage in the portfolio and the strong profile of the promoters.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that given the well-diversified nature of IndoSpace Core's portfolio, it will remain protected from any large reduction in occupancy or rental collections over the medium term. The strong sponsors and low leverage provide exceptional financial flexibility.

Key rating drivers and their description

Credit strengths

Well diversified portfolio of assets with adequate tenant profile - The current asset portfolio of IndoSpace Core has 13 completed industrial and logistic parks (housed under 18 special purpose vehicles), which includes completed area of 11.8 mn sq ft. The completed area enjoys healthy committed occupancy of 99% as on July 31, 2022 (95% as on July 31, 2021). The portfolio assets are spread across four key markets of India – Pune, Chennai, Haryana, Bengaluru and have a diversified as well as reputed tenant mix with top 10 tenants contributing to 51% of the gross rentals as on July 31, 2022.

The project housed under Destination Industrial Parks Private Limited is an industrial and logistics park, located at Chakan, Pune. The area is a major industrial hub in the western part of India with over 9,500 acres of land under development by MIDC. It is one of the largest automobile manufacturing hubs in India, along with engineering and electronics industries. The location is also favourable due to its proximity to Jawaharlal Nehru Port Trust (JNPT), NH-3 and NH-4.

Strong financial risk profile– The consolidated debt outstanding at portfolio level as on March 31, 2022 was Rs. 871.1 crore (Rs. 910.6 crore as on March 31, 2021) (comprising external debt of Rs. 751.6 crore and compulsory convertible debenture of Rs. 119.5 crore). The external debt translates into a low LTV of 17% as on March 31, 2022. The leverage is low with net external debt/NOI of 1.6 times as of March 2022 (PY: 2.2 times). The presence of DSRA equivalent to three months' debt obligations and escrow mechanism prioritising debt servicing provide comfort against any short-term liquidity mismatch. Additionally, cash flow fungibility across the assets, due to the cross-collateralised structure, lends strength to the financial risk profile.

Credit profile supported by conservative leverage policy– The portfolio credit profile is expected to remain supported by the management's conservative leverage policy. IndoSpace Core has a policy of acquiring only stable rent-yielding assets, which reduces the risk of weakening of the consolidated business risk profile. Further, the new acquisitions are likely to be funded by a conservative debt-to-equity mix, which is expected to support low leverage going forward with net debt/NOI remaining below 2.0 times in the near to medium term.

Leadership position and established track record of sponsors – The IndoSpace Group is one of India's leading developers of industrial and warehousing parks. It develops industrial and logistics parks for leading players across various sectors including automobiles, e-commerce, FMCG, third-party logistics and manufacturing among others. At present, it has 41 Grade A parks in North zone (1 in Rajpura and 8 in Delhi/NCR), 11 in West zone (2 each in Ahmedabad and Mumbai and 7 in Pune) and 21 in South zone (1 in Ananthpur, 2 in Sri City, 14 in Chennai, 1 in Coimbatore and 3 in Bengaluru). Overall, the Group has an established track record of operating industrial and logistics parks in India, and its status as the investment manager for IndoSpace Core supports the business risk profile of the portfolio. Strong financial profile of the sponsors, Canada Pension Plan Investment Board (CPPIB) and GLP Global, also provides financial flexibility to the portfolio.

Credit challenges

Exposure to interest rate risk- The company and the portfolio remain exposed to interest rate risk on the LRD loans availed for each of the projects. Nonetheless, ICRA notes that the projected debt coverage metrics (after factoring in the recent rate hikes) are expected to remain robust.

Vulnerability to lease expiry risks – For the project housed under Destination Industrial Parks Private Limited, around 43% of the leasable area is due for renewal in FY2024. Overall, at the portfolio level over 40% of the area is due for renewal in FY2024-2025 which exposes it to vacancy risks. ICRA notes that in FY2022, majority of the escalations have been as per the contract terms and majority of the leases due for renewal in FY2022-FY2023 have been either been renewed or replaced. The vacancy risk is mitigated by the IndoSpace's strong relationship with tenants and demonstrated track record of renewal/addition of leases in the past.

Large bullet in April, 2025 exposes the structure to refinancing risks – The current debt structure has a door-to-door tenure of five years, wherein 76.3% of the debt has to be paid as bullet repayment on April 16, 2025 (FY2026). This debt structure exposes the portfolio to refinancing risk. Despite the planned acquisition led expansion of the portfolio, the LTV at the time of refinancing is expected to remain below 20%. The low LTV, providing sufficient head-room for refinancing, together with strong financial profile of the promoters and its demonstrated track record of refinancing its debt in the past mitigates the risk.

Liquidity position: Superior

As on July 31,2022, Destination Industrial Parks Private Limited had a free cash balance of Rs 0.52 crore and a DSRA balance of Rs 0.28 crore. Further, its liquidity is supported by the debt structure wherein each SPV has access to extend the surpluses of other SPVs under IndoSpace Core. At the core portfolio level, the average monthly principal and interest obligations in FY2023 are estimated at Rs. 8 crore, while the average monthly net operating income is expected to be upwards of Rs. 28 crore. As on July 31, 2022, the portfolio had a free cash and bank balance of Rs. 163 crore, DSRA of Rs. 25 crore and unutilised overdraft limit of Rs. 81 crore.

Rating Sensitivities

Positive factors – Not applicable.

Negative factors – Any material decline in occupancy or rentals adversely affecting the credit metrics of Destination Industrial Parks Private Limited will be a key monitorable. Negative pressure on the rating could also arise if any large debt-funded acquisition leads to Net Debt/NOI to above 3.0 times on sustained basis at the portfolio level.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Rating approach- Implicit Parent or Group Support
Parent/Group support	Parent: IndoSpace Core IndoSpace Core comprises 18 SPVs housed under IndoSpace Logistics Parks Core Pte. Ltd. which operate under a common management, have business linkages and cash flow fungibility. All the 18 SPVs have a common lender and the debt availed by them have a cash flow pooling mechanism, with presence of cross default clauses.
Consolidation/Standalone	Standalone

About the Company

Incorporated in 2007, Destination Industrial Parks Private Limited is a step-down subsidiary of IndoSpace Logistics Parks Core Pte. Ltd. The company operates a logistics and Industrial park named Chakan Destination in Chakan, Pune (Maharashtra). The project is developed on a land parcel of 4.9 acres with a total leasable area of 0.61 lakh sq. ft., which has a committed occupancy of 100% as on July 31, 2022.

IndoSpace Logistics Parks Core Pte. Ltd. (IndoSpace Core) is a joint venture between Everstone-backed real estate developer and warehousing and logistics specialist IndoSpace (2% stake), Canada Pension Plan and Investment Board (CPPIB – 93% stake) and global investment fund manager GLP (5% stake). The current asset portfolio of IndoSpace Core has 13 completed industrial and logistic parks (housed under 18 special purpose vehicles) with a leasable area of 11.8 mn sq ft. The completed area enjoys healthy committed occupancy of 99% as on July 31, 2022. The portfolio assets are spread across four key markets of India – Pune, Chennai, Haryana, Bengaluru.

Key financial indicators (audited)

Standalone – Destination Industrial Parks Private Limited	FY2021	FY2022
Operating income (Rs. crore)	1.73	2.42
PAT (Rs. crore)	-1.38	-0.27
OPBDIT/OI	52.25%	74.94%
PAT/OI	-79.43%	-11.24%
Total outside liabilities/Tangible net worth (times)	1.63	1.57
Total debt/OPBDIT (times)	10.90	5.17
Interest coverage (times)	0.85	2.73

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; all ratios as per ICRA's calculations

Source: Company's financials

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 Jul 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 07, 2022	Oct 05, 2021	Aug 24, 2020	Aug 30, 2019
1	Term loans	Long-term	10.00	8.87	**[ICRA]AAA (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	-
2	Term Loan	Long-term	--	--	-	-	**[ICRA]AA+ (Stable); Withdrawn**	**[ICRA]BBB+ (Stable)**

&= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
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 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	Apr-2020	-	Apr- 2025	10.00	[ICRA]AAA(Stable)

Source: *Company*

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

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 4067 6516
Anupama.reddy@icraindia.com

Tushar Bharambe
+91 22 6169 3347
tushar.bharambe@icraindia.com

Sandhya Negi
+91 20 6606 9925
sandhya.negi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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