

January 06, 2023

Indospace Industrial Park Panruti Private Limited: Rating continues to be on Watch with Positive Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	45.00	39.83	[ICRA]A-; continues to be on Watch with Positive Implications
Total	45.00	39.83	

*Instrument details are provided in Annexure-I

Rationale

The rating for Indospace Industrial Park Panruti Private Limited's (IIPPL) bank lines continues to be on Watch with Positive Implications considering the proposed transfer of the company to IndoSpace Core platform¹. ICRA will resolve the watch once the transaction is complete and the impact on the credit profile of IIPPL is ascertained.

The rating reaffirmation continues to favourably factor in the strong business profile and established track record of IndoSpace in India and the favourable location of the asset in the Oragadam cluster. IIPPL has developed a 3 lakh square feet (sq. ft.) industrial and logistics park at Oragadam, Tamil Nadu, which is 100% leased at present. The rating notes the comfortable leverage in the project (External Debt/NOI of around 4 times), cumulative debt service coverage ratio (DSCR) of 1.23 times for external debt and the adequate liquidity profile, which is supported by the presence of a debt service reserve account (DSRA) as stipulated for the project loan (equivalent to three months of debt servicing) and escrow mechanism for the project's cash flows.

The rating, however, is constrained by the moderate tenant profile and the tenant concentration risk with around 60% area being occupied by a single tenant. Any significant weakening in the credit profile or business operations of the tenant, resulting in reduction in occupancy or delays in rent receipts, may impact IIPPL's cash flows. Further, the company is exposed to vacancy risk as the lock in period is expiring for around 20% of the leasable area in July 2023. However, ICRA draws comfort from the demonstrated leasing track record of IndoSpace across different micromarkets including Oragadam. IIPPL is also exposed to high geographical and asset concentration risks inherent in single project companies. These risks, however, are mitigated to some extent by the sponsor's vast experience in the warehousing space, large portfolio of IndoSpace across geographies and its established relationship with potential tenants.

Key rating drivers and their description

Credit strengths

Strong business profile and track record of sponsors – IIPPL is promoted by ILP II Ventures XI Pte. Ltd (part of IndoSpace), which is sponsored by Realterm Global, Everstone Capital and GLP Global. Realterm Global has more than 20 years of experience in developing industrial and logistics parks across the world. At present, it manages assets worth over USD 7 billion.

¹ IndoSpace Logistics Parks Core Pte. Ltd. (IndoSpace Core/Core platform) is a joint venture between Everstone-backed real estate developer and warehousing and logistics specialist IndoSpace (2% stake), Canada Pension Plan 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 (SPVs)) with a leasable area of 11.8 million square feet (msf).

It operates some of the largest and most modern facilities in North America and other parts of the world. Everstone Capital is a prominent India-focused investment firm. The Everstone Group manages funds of over USD 5 billion in private equity and real estate. GLP Global is an investment firm with over USD 100 billion assets under management (AUM) across real estate and private equity segments.

Favourable location of the industrial/warehousing park with full occupancy – The industrial and logistics park developed by IIPPL is in Oragadam. The area has several industrial set-ups developed by the State Industries Promotion Corporation of Tamil Nadu and spread across 2,447 acres and houses numerous small, medium and large-scale manufacturing and industrial units. The project is located alongside the State Highway-48 and at a distance of ~37-40 km from the Chennai International Airport and ~60 km from Chennai Railway Station. As of November 2022, the park is 100% leased.

Low leverage and adequate debt coverage metrics; DSRA and escrow mechanism provides additional comfort – IIPPL's projected coverage metrics are expected to remain healthy, with a cumulative DSCR of 1.23 times for the external debt. The coverage metrics could further improve, if the existing construction finance loan is converted to a lease rental discounting loan with a longer tenure. The bank facility requires maintaining a DSRA, which is equivalent to three months of debt servicing obligations for the project loan post the moratorium period, which provides additional comfort.

Credit challenges

Exposure to vacancy risk – As of November 2022, lock in period is expiring for around 20% of the leasable area in July 2023, which exposes the company to vacancy risk. However, ICRA draws comfort from the demonstrated leasing track record of IndoSpace across different micromarkets.

Tenant concentration risk – The top tenant occupies 60% of the park's leasable area, thus exposing the company to tenant concentration risk. The top tenant's 10-year tenure, with adequate lock-in period and sizeable interest-free security deposit, mitigates the risk to an extent. However, any weakening of the tenant's credit profile, delays in rental payments or vacancy will adversely impact IIPPL's cash flow position.

Geographical and asset concentration risks – IndoSpace Panruti is the single project undertaken by IIPPL. Thus, it is exposed to high geographical and asset concentration risks inherent in single project companies. However, ICRA draws comfort from the diverse portfolio of IndoSpace, which 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, 3PL and manufacturing among others. At present, it has 41 Grade-A parks – nine in north zone (one in Rajpura and eight in Delhi/NCR), 11 in west zone (two each in Ahmedabad and Mumbai and seven in Pune) and 21 in south zone (one in Ananthpur, two in Sri City, 14 in Chennai, one in Coimbatore and three in Bengaluru).

Liquidity position: Adequate

The company's liquidity position is adequate, supported by the stable rental income from the underlying asset (Rs. 9.6 crore) compared to the debt obligations (Rs. 2.8 crore and Rs. 3.4 crore in FY2023 and FY2024, respectively). The escrow mechanism in place for the project's cash flows, along with the requirement for DSRA of three months (Rs. 1.65 crore) of debt servicing obligations for the project loan, underpin the liquidity profile. IIPPL had cash and liquid investments of Rs. 4.3 crore as on September 30, 2022.

Rating sensitivities

Positive factors – The watch will be resolved on completion of the proposed transfer of the asset to IndoSpace Core platform and post assessment of the impact of the said transfer on the company's financial profile.

Negative factors – The watch will be resolved on completion of the proposed transfer of the asset to IndoSpace Core platform and post assessment of the impact of the said transfer on the company's financial profile. In the interim, any significant decline

in occupancy levels in the asset, which results in pressure on the liquidity and debt coverage metrics would be a negative trigger.

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

IIPPPL was formerly known as Coral Logistics Park Private Limited. It was incorporated on April 27, 2012. The company develops and operates industrial warehouse and logistics park. It is a 100% subsidiary of ILP II Ventures XI Pte. Ltd. It is currently operating a logistics park, Indospace Industrial Park, Oragadam I Phase II in Oragadam (Chennai, Tamil Nadu), on a land admeasuring approx. 14.2 acres with a total leasable area of ~3 lakh sq. ft.

Key financial indicators (Audited)

IIPPPL	FY2021	FY2022
Operating income	5.9	9.5
PAT	-4.2	1.0
OPBDIT/OI	67.3%	81.4%
PAT/OI	-71.4%	10.7%
Total outside liabilities/Tangible net worth (times)	1.5	1.4
Total debt/OPBDIT (times)	9.7	4.9
Interest coverage (times)	1.2	2.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; all ratios as per ICRA's calculations

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# (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jan 06, 2023	Feb 25, 2022	Feb 18, 2021	Dec 27, 2019
1	Long-term-fund-based – Term Loan	Long-term	39.83	36.76	[ICRA]A- on Watch with Positive Implications	[ICRA]A- on Watch with Positive Implications	[ICRA]A- (Stable)	[ICRA]BBB (Stable)

#As on September 30, 2022

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 Loans	March 2019	-	FY2030	39.83	[ICRA]A- on Watch with Positive Implications

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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Branches



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