January 06, 2023

Pluto Business Parks Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	260.00	260.00	[ICRA]A- (Stable); Reaffirmed
Total	**260.00**	**260.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for the bank facilities of Pluto Business Parks Private Limited (PBPPL) factors in the favourable location of the asset in the Central Business District, Bengaluru, along with healthy occupancy levels (100% as on September 30, 2022), and the reputed tenant profile, which includes multinational companies such as Deloitte, Amazon, etc. The rating draws comfort from the company's adequate liquidity position with presence of sizeable free cash and liquid investments of Rs. 31.47 crore as on September 30, 2022. In addition to its debt service reserve account (DSRA) balance equivalent to three months' principal and interest payments, the company is expected to maintain free cash and equivalents of ~Rs. 20 crore on a sustained basis. The rating favourably considers the high financial flexibility being a part of the Blackstone Group, which has a strong track record of developing and operating commercial real estate assets in India.

The rating is, however, constrained by the vulnerability of the company's debt coverage indicators to changes in interest rates and reduction in occupancy levels. PBPPL's five-year DSCR is expected to remain below 1.1 times in FY2023, following the significant increase in interest rates. Nonetheless, the presence of adequate liquidity cushion in the form free cash and liquid investments to the tune of Rs. 31.47 crore as on September 30, 2022, along with DSRA balance of Rs. 6.75 crore provides comfort. The leverage, as depicted by external debt/net operating income, is estimated to remain at 7.5 times in FY2023. It is exposed to refinancing risk, given that the loan availed by the company has a five-year tenure with bullet repayment, which is around 80% of the drawn limit. Nonetheless, the risks are partly mitigated by the comfortable leverage metrics at the time of the loan maturity and its strong financial flexibility. The single asset nature of the business heightens the market risk in case of any vacancy/non-renewal of leases. The rating is constrained by the high tenant concentration with the top five tenants occupying 88% of the area leased.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that PBPPL will continue to benefit from the favourable location, healthy occupancy, reputed tenant profile and the strong sponsor lending high financial flexibility.

Key rating drivers and their description

Credit strengths

Favourable location of the property and high occupancy – PBPPL acquired 1.75 lakh square feet of the leasable area in Prestige Trade Tower from the Prestige Group through a business transfer agreement in March 2021. Prestige Trade Towers is located on the Palace Road in the Central Business District, Bangalore. It is a prime area for commercial office space. The company's share of area has an occupancy of 100% as on September 30, 2022.

Reputed tenant profile – The company has a strong tenant profile with reputed tenants such as Amazon, Deloitte etc. Deloitte remains the largest tenant occupying more than 40% of the leasable area.

Strong promotor group with established track record lends financial flexibility – The company is owned by the sponsor, which is India's leading office landlord with offices spaces across Bangalore, Pune, Hyderabad, Mumbai, the National Capital Region

(NCR) and Chennai. The sponsor has established leasing relationships with several blue-chip multinational companies as well as Indian corporates. The sponsor's long track record in the real estate sector and large, diverse portfolio in retail and commercial real estate business in India provides comfort and allows it to command high financial flexibility. ICRA also expects the sponsor to support PBPPL in the event of any cash flow requirement.

Presence of DSRA – The company is required to maintain DSRA reserve equivalent to three months of debt servicing obligations. In addition, it is expected to maintain adequate cash and liquid investments providing liquidity support to absorb the impact of any short-term variances in cash flows.

Credit challenges

Refinancing risk and modest debt coverage metrics – The loan availed by PBPPL has a five-year tenure with bullet repayment, which is around 80% of the drawn limit. Nonetheless, the risks are partly mitigated by the comfortable leverage metrics of less than 5.5 times by the time of the maturity of the loan, along with the strong financial flexibility of the company. It is expected to have modest debt coverage metrics, with five-year DSCR of below 1.1 times in FY2023 due to increased interest rates. However, the presence of adequate liquidity cushion in the form free cash and liquid investments to the tune of Rs. 31.47 crore as on September 30, 2022, along with DSRA balance of Rs. 6.75 crore, provides comfort.

High tenant concentration – PBPPL has a high tenant concentration with the top five tenants occupying 88% of the area leased. However, the tenant concentration risk is mitigated to some extent due to the favourable location of the project and reputed profile of tenants.

Vulnerability of debt coverage ratios to changes in interest rate and occupancy levels – The debt coverage ratios remain linked to additional debt, changes in interest rates and reduction in occupancy levels.

Liquidity position: Adequate

The company has adequate liquidity as reflected in free cash and liquid investments of around Rs. 31.47 crore, and DSRA reserve of Rs. 6.75 crore as on September 30, 2022. PBPPL's average monthly interest and principal repayment obligations for the lease rental discounting (LRD) loans is around Rs. 2.6 crore for next one year, which is expected to be serviced by the operational cash flows. Moreover, ICRA expects the sponsor to support PBPPL in the event of any further cash flow requirement.

Rating sensitivities

Positive factors – Significant improvement in operational cash flows, through increase in rent rates or reduction in debt resulting in an improvement in leverage and coverage metrics, on a sustained basis, would be a credit positive.

Negative factors – Significant increase in vacancy leading to weakening of coverage metrics and liquidity position would lead to a downgrade in rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Lease Rental Discounting (LRD)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in October 2020, PBPPL owns 1.75 lakh square feet of leasable area in Prestige Trade Tower in Bangalore, Karnataka. This asset was acquired by the company from the Prestige Group through a business transfer agreement (BTA). It is owned entirely by entities affiliated with the Blackstone Group.

Key financial indicators (Audited)

	FY2021*	FY2022
Operating income	2.8	36.7
PAT	0.0	-0.9
OPBDIT/OI	92.23%	84.08%
PAT/OI	1.16%	-2.36%
Total outside liabilities/Tangible net worth (times)	2.3	1.5
Total debt/OPBDIT (times)	70.8	8.2
Interest coverage (times)	1.3	1.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore All ratios as per ICRA calculations
**For the period 22nd October 2020 to 31st March 2021 in FY2021*

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 on September 30, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					January 06, 2023	December 31, 2021	-	-
1	Term Loans	Long-term	260.00	251.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long-term - Term Loans	July 2021	8.80%	June 2026	260.00	[ICRA]A- (Stable)

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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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.

For more information, visit www.icra.in

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