January 30, 2023

Gigaplex Estate 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 1	150.0	150.0	[ICRA]AA+(Stable); reaffirmed
Long-term Fund-based – Term loan 2	210.0	210.0	[ICRA]AA+(Stable); reaffirmed
Total	**360.0**	**360.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for the bank facilities of Gigaplex Estate Private Limited (GEPL) continues to factor in the strength of the promoter, with the entity being a part of Mindspace Business Park REIT {Mindspace REIT, rated at [ICRA]AAA(Stable)} and its strategic importance for the REIT. GEPL contributes to around 10.2% of Mindspace REIT's consolidated net operating income (NOI) for H1 FY2023 and ~15.7% of the REIT's consolidation asset valuation as of September 2022. ICRA notes that certain assets of GEPL have been encumbered towards the secured borrowings at Mindspace REIT. The rating also considers the comfortable leverage and debt coverage metrics of GEPL. The leverage (Debt[1]/NOI) is estimated to be less than 6.0 times and five-year average DSCR is estimated to be above 2.2 times.

GEPL has an established business position, with a favourably located commercial asset in Airoli, Mumbai Region. It has a completed area of 4.3 million sq. ft. (msf) and an under-development area of 0.9 msf as on September 30, 2022. The tenant profile is strong and is spread across diversified industries, with long-term lease tenures, typically ranging within 3-15 years, thereby ensuring rental visibility over the near to medium term.

The rating remains constrained by the moderate committed occupancy levels of 69% as of September 2022 leading to market risks for the vacant area. While the competitive rental rates for GEPL's property mitigate the risks to an extent, ICRA notes that the overall vacancy is primarily attributable to the SEZ area of the property (occupancy of SEZ area is around 60.3% and non-SEZ area is around 88.5% as of September 2022). The top five tenants contribute to 48% of the total leased area, thereby leading to moderate lessee concentration risk. However, the strong tenant, low competition in the vicinity, and significant investments in fit-outs mitigate the tenant concentration risks to some extent.
In addition, the rating factors in the planned capex worth around Rs. 220 crore during FY2023 – FY2026 towards construction of new buildings (including completion of ongoing DC 1 and building 9, and construction of DC 2), along with the upgradation of the existing building 5, which exposes GEPL to execution risk. ICRA, however, notes that the under-construction buildings are to be completely funded via promoter debt and around 70% of the under-development area is pre-leased.

ICRA believes that the company's credit profile will remain stable on the back of its strong ownership, healthy operational portfolio, strong tenant profile, along with comfortable coverage and leverage metrics.

Key rating drivers and their description

Credit strengths

Strength derived from parentage and status as a strategically important SPV of Mindspace REIT – GEPL's entire stake is held by Mindspace REIT since August 2020. The asset portfolio under the REIT includes some of the major business parks of Mumbai, Hyderabad, Pune and Chennai with a reputed and diversified tenant mix comprising leading multi-nationals and Indian corporates. REIT's portfolio includes completed office space area of 24.9 msf, under construction and future development

[1] *Including external debt of GEPL and debt taken by GEPL from Mindspace REIT*

potential of 7.0 msf. GEPL contributes to 10.2% of Mindspace REIT's consolidated NOI for H1 FY2023 and 15.7% of the REIT's market value as on September 30, 2022.

Significant decline in debt levels post-acquisition by the REIT, leading to healthy leverage and coverage metrics – The ratings continue to factor in the low debt levels, given the significant external debt reduction over the past couple of years, post-acquisition by the REIT. The leverage and debt coverage metrics remain comfortable for GEPL. The leverage (Debt/NOI) is estimated to be less than 6.0 times and five-year average DSCR is estimated to be above 2.2 times.

Strong tenant profile – The commercial asset is favourably located in Airoli, Mumbai region, having a completed area of 4.3 msf. The under-development area of 0.6 msf (out of total under-construction area of 0.9 msf) includes built-to-suit data centres for the Princeton Digital Group, which are 100% pre-leased. The existing tenant profile is strong and is spread across diversified sectors, with long-term lease tenures, typically ranging within 3-15 years, thus ensuring rental visibility. Over the next three years, only 3% of the leases are due for renewal, thus ensuring the visibility of rental income over the near to medium term.

Credit challenges

Exposure to moderate tenant concentration risk – The top five tenants contribute to 48% of the total leased area thereby leading to moderate lessee concentration risk. However, the strong tenant, low competition in the vicinity, and significant investments in fit-outs mitigate the tenant concentration risks to some extent.

Exposure to market risks for vacant area – GEPL's committed occupancy level remained moderate at 69% as of September 2022, leading to market risk for the vacant area. While the competitive rental rates for GEPL's property mitigate the risks to an extent, ICRA notes that the overall vacancy is primarily attributable to the SEZ area of the property (occupancy of SEZ area is around 60.3% and non-SEZ area is around 88.5% as of September 2022).

Exposure to execution risk for under-development area – GEPL's planned capital expenditure worth around Rs. 220 crore during FY2023 – FY2026 towards construction of new buildings (including completion of ongoing DC 1 and building 9, and construction of DC 2), along with the upgradation of the existing building 5 thereby exposing to execution risk. ICRA, however, notes that the under-construction buildings are to be completely funded via promoter debt and around 70% of the under-development area is pre-leased.

Liquidity position: Strong

GEPL's liquidity position will be supported by stable rental income from its assets and low operational expenditure in the leasing business. Steady fund flow from operations provides healthy cover to meet the debt servicing obligations. Additionally, the planned capex of Rs. 220 crore during FY2023 – FY2026 is expected to be funded through promoter debt. The cash balance stood at Rs. 4.2 crore and GEPL has sanctioned unutilised overdraft facilities of Rs. 100 crore as on March 31, 2022.

Rating sensitivities

Positive factors – ICRA could upgrade GEPL's rating if there is significant ramp up in occupancy levels and increased scale of operations, with continued improvement in average rentals leading to increased share of NOI in the overall REIT's portfolio.

Negative factors – ICRA could downgrade GEPL's rating if a significant increase in borrowings or a decline in the net operating income increases the Net Debt/NOI to above 6.5 times, on a sustained basis. Further, any deterioration in the credit profile of the Mindspace REIT might have a bearing on GEPL's rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Implicit support from Parent or Group
Parent/Group support	Parent Company: Mindspace Business Parks REIT ICRA expects that GEPL's parent will be willing to extend financial and operational support to it, if required, given the strategic importance of GEPL to the REIT Group, and the significant contribution of the SPV to the overall EBITDA and valuation of the Group
Consolidation/Standalone	Standalone

About the company

Incorporated in August 1990, Gigaplex Estate Private Limited was promoted by the CL Raheja Group and was earlier owned by K Raheja Corp (85%) and Blackstone (15%). The company was acquired by Mindspace Business Parks REIT in August 2020 and is now a 100% subsidiary of the REIT. As on date, the company has a commercial project named Mindspace Airoli West with a total leasable area of 5.2 msf, of which 4.3 msf has been completed with a committed occupancy of 68.7%. The remaining 0.9 msf is under construction, of which 70% is pre-leased.

Key financial indicators (audited)

	FY2021	FY2022	H1 FY2023
Operating income	204.0	204.9	114.6
PAT	2.9	-28.4	-18.2
OPBDIT/OI	72.9%	70.7%	64.0%
PAT/OI	1.4%	-13.9%	-15.9%
Total outside liabilities/Tangible net worth (times)	11.5	15.0	18.8
Total debt/OPBDIT (times)	11.1	12.0	12.4
Interest coverage (times)	1.0	1.5	1.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

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 Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					Jan 30, 2023	Dec 31, 2021	Sep 02, 2021	-	-
1	Term loan 1	Long term	150.0	86.3	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-
2	Term loan 2	Long term	210.0	132.1	[ICRA]AA+ (Stable)	[ICRA]AA+ (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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan I**	Dec 2020	NA	Dec 2023	150.0	[ICRA]AA+ (Stable)
NA	**Term loan II**	July 2021	NA	June 2034	210.0	[ICRA]AA+ (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.

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