March 07, 2023

Vessel Warehousing Private Limited: Rating reaffirmed, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	100.0	155.0	[ICRA] A+ (Stable); reaffirmed/assigned
Total	**100.0**	**155.0**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view[1] of Vessel Warehouse Private Limited (VWPL) and Cella Warehousing Private Limited (CWPL), while reaffirming the rating, given the cross-collateralisation, cross-guarantees extended for the rated facility, close business, financial and managerial linkages among the same.

The rating reaffirmation factors in the healthy operational track record of VWPL's and CWPL's warehouses, their attractive location in a Free Trade Warehousing Zone (FTWZ) in Chennai, and 100% occupancy of the warehouses. Moreover, the weighted average lease rentals improved by around 5% in the past one year, on the back of new leasing and re-leasing at favourable rates. The tenant profile is healthy and comprises reputed logistics companies, which moderates the counterparty risks. ICRA also takes note of the parentage of The Xander Group (a Singapore-based private equity group), which has presence across commercial, retail, and industrial segments of the real estate sector.

The Group is in the process of acquiring three warehouses (on a fully leased basis) having a leasable area of 0.9 million square feet (msf) in the same campus, in a phase-wise manner, starting from March 2023. Consequently, ICRA notes that the Group's external debt is likely to increase, thereby increasing the leverage - Net debt[2]/net operating income[3], to around 5-5.5 times in FY2023. The same is estimated to peak in FY2025 at around 6.5-7 times and improve thereafter once the rental from new warehouses starts. Nevertheless, the debt service coverage ratio (DSCR) is expected to remain healthy during this period. Post the expansion, the Group will benefit from the increased scale and other operational synergies, which would strengthen its overall operating profile. The proposed promoter's contribution towards the acquisition, to be brought-in primarily in the form of compulsorily convertible debentures (CCDs), will remain subordinated to the bank debt and will be serviced only from surplus available post debt servicing. No default calling rights will be available to the CCD holders. The terms of the sanctioned lease rental discounting (LRD) debt include a put option in the 39th month, which exposes the Group to refinancing risk. However, considering the comfortable leverage, ICRA expects the debt raising potential on rentals to be sufficient for the required refinancing, should the need arise.

The rating is, however, constrained by the Group's modest scale of operations and high dependence on a single location for revenue generation. The operating assets consist of 16 warehouses spread over 0.9 msf of area in Chennai. Further, the tenant concentration remains high with top five tenants occupying 64% of the leased area. Nonetheless, the long tenure of the leases, extending over 10–15 years, and a staggered lease expiry schedule reduces the vacancy risks. The rating also notes the vulnerability of debt coverage ratios to factors such as changes in interest rate or reduction in occupancy levels.

The Stable outlook reflects ICRA's opinion that the Group will continue to generate stable cash flows from the operational warehouses and maintain comfortable coverage metrics.

[1] Please refer to Analytical approach on page 3 and Annexure II on page 5 for list of entities consolidated
[2] Net debt is defined as total external debt minus cash and cash equivalents
[3] Net operating income (NOI) is defined as lease rental income and maintenance income less maintenance, property tax, insurance and any other direct expenses associated with the property

Key rating drivers and their description

Credit strengths

Favourable location of assets in a free trade warehousing zone in Chennai – The warehouses are located in a shared campus, which is favourably situated in a FTWZ in Chennai. The favourable location, along with the quality of the development, have supported healthy occupancy levels of 100% as on date. Further, the weighted average lease rentals improved by around 5% in the past one year, on the back of new leasing and re-leasing at favourable rates.

Healthy debt protection metrics – The Group has comfortable leverage and coverage indicators even though the same are expected to moderate in the medium term. The net debt by NOI was around 4 times as on March 31, 2022. ICRA expects the same to moderate to around 5-5.5 times in FY2023 and peak in FY2025 at around 6.5-7 times on account of additional indebtedness. However, the DSCR is likely to remain healthy during this period, given the long tenure and back ended debt repayment structure.

Part of Xander Group which has presence across commercial, retail, and industrial segments of the real estate sector – CWPL and VWPL are managed by The Xander Group (a Singapore-based private equity group), which has a track record of almost 18 years in India. The Group has presence across commercial, retail and industrial segments of the real estate sector, supported by a strong team with capabilities across the real estate investment value curve.

Credit challenges

Limited scale and asset concentration risks – The operating assets consist of 16 warehouses spread over 0.9 msf of area in the same campus. The Group has modest scale of operations and high dependence on a single location for revenue generation, thereby exposing it to risk pertaining to any geo-political issues or demand-supply mismatch in the micro-market.

Exposed to lessee concentration risk and lease renewal risks – The Group is exposed to tenant concentration risk as the top five tenants occupy 64% of the operational area. Hence, if any large tenant decides to vacate, it may significantly impact its cash flows. However, ICRA derives comfort from the long tenure of the leases, extending over 10–15 years, and the Group's demonstrated track record in maintaining nearly 100% occupancy over the years.

Proposed acquisition to expose the Group to funding risks – VWPL is in the process of acquiring three warehouses (on a fully leased basis) having a leasable area of around 0.9 msf in the same campus, in a phase-wise manner, starting from March-2023. The acquisition is proposed to be funded by a mix of debt and equity (including subordinated debt from sponsor, internal accruals, and security deposit), for which the debt is yet to be tied up.

Liquidity position: Adequate

The liquidity position is adequate. As on September 30, 2022, the Group had unencumbered cash and bank balance of Rs. 11.8 crore and undrawn working capital bank lines of Rs. 19 crore, providing liquidity buffer. Further, the estimated cash flow from operations is sufficient to meet the scheduled LRD repayment obligations of around Rs. 9 crore in FY2024. The pending project cost for under-development assets worth Rs. 370 crore is expected to be funded by bank limits of Rs. 190 crore and the remaining from CCD infusion/ internal accruals and security deposits.

Rating sensitivities

Positive factors – Significant growth in scale of operations, along with increased diversification across tenants and assets while maintaining strong debt protection metrics and liquidity position, on a sustainable basis, could result in a rating upgrade. Specific metric that will lead to a rating upgrade will be Net debt to NOI of less than 4.5 times on a consistent basis.

Negative factors – Prolonged and significant drop in occupancy, or higher-than-expected debt build-up, leading to lower-than-expected cash cover and deterioration in leverage indicators will be a credit negative. Additionally, adverse impact, if any, of the proposed acquisition on the Group's leverage and coverage will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Lease Rental Discounting (LRD) Rating Approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the operational and financial profile of the VWPL and CWPL (as mentioned in Annexure II) given the cross-collateralisation, cross-guarantees extended for the rated facility, close business, financial and managerial linkages among the same.

About the company

The Xander Group, through its affiliate, acquired VWPL and CWPL. As on date, Cella Holding Pte. Ltd. owns near 100% shareholding of VWPL as well as CWPL. At present, the Group has 16 warehouses spread over 0.9 msf of area in the same campus in JMFTZ Warehousing Zone, in Chennai. The current occupancy is 100%.

Key financial indicators (audited)

VWPL + CWPL – Consolidated	FY2021	FY2022	H1 FY2023
Operating income	35.8	37.0	18.9
PAT	4.0	4.4	2.0
OPBDIT/OI	88.2%	81.5%	83.9%
PAT/OI	11.2%	11.9%	10.5%
Total outside liabilities/Tangible net worth (times)	10.1	334.7	87.6
Total debt/OPBDIT (times)	6.2	7.6	6.9
Interest coverage (times)	1.6	1.7	1.6

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; line by line consolidation done by ICRA; the above financial numbers and ratios reflect the analytical adjustments made by ICRA and may not be comparable with the reported 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 on Dec 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				March 07 ,2023	January 24, 2023	January 25, 2022	November 27, 2020	March 3, 2020	January 9, 2020
1 Term loan I	Long Term	100.0	78.7	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2 Term loan II	Long Term	55.0	0.0	[ICRA]A+ (Stable)	-	-	-	-	-
3 Unallocated	Long Term	-	-	-	-	-	-	-	[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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan I**	March 2020	-	March 2035	100.0	[ICRA]A+ (Stable)
NA	**Term loan II**	February 2022	-	April 2037	55.0	[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:

Company Name	VWPL's Ownership	Consolidation Approach
Cella Warehousing Private Limited	-	Full Consolidation

Source: ICRA Research

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About ICRA Limited:

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