April 12, 2023

Mindspace Business Parks Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based TL	1013.77	1255.75	[ICRA]AAA (Stable); reaffirmed
Long-term – Unallocated	348.55	-	-
Short-term – Fund-based	210.00	-	-
Short-term – Non-fund based	75.00	75.00	[ICRA]A1+; reaffirmed
Non-convertible debentures (NCD)	490.00	490.00	[ICRA]AAA (Stable); reaffirmed
Total	**2137.32**	**1820.75**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Mindspace Business Parks Private Limited (MBPPL) continues to factor in the strength of the promoter, with the entity being a part of Mindspace Business Park REIT (Mindspace REIT, rated [ICRA]AAA(Stable)) and its strategic importance for the REIT. MBPPL contributed to 29% of Mindspace REIT's consolidated net operating income (NOI) for 9M FY2023 and 28% of the REIT's market value. MBPPL's assets are geographically diversified. Its commercial assets are favourably located in Mumbai, Pune and Hyderabad with a total completed area of 7.7 million square feet (msf) as on December 31, 2022. The company's strong and reputed tenant profile in the properties and the long-term lease tenure of 5-15 years ensure rental visibility in the near to medium term.

ICRA notes that certain assets of MBPPL have been encumbered towards the secured borrowings at Mindspace REIT. The ratings factor in the comfortable leverage and coverage metrics of MBPPL. The leverage (Debt[1]/NOI) is estimated to be less than 4.0 times and the five-year average debt servicing coverage ratio (DSCR) for FY2023-FY2027 is likely to be above 2.0 times.

ICRA, however, has taken note of MBPPL's exposure to high tenant concentration risk in all the four assets. Timely remittance of rentals by the tenants remains important, given the absence of a debt service reserve account (DSRA) for most of the loans. Nevertheless, the risk of delayed remittance is mitigated by strong counterparties with timely payment track record, well-diversified rental pool, along with healthy cushion in coverage metrics. The ratings consider the cyclicality associated with the commercial real estate sector and vulnerability to external factors. The occupancy in MBPPL's portfolio has declined marginally to 87% as of December 2022 from 89% as of December 2021. With resumption in back-to-office plans, the occupancy levels are likely to remain stable in the medium term. The ratings factor in the future development potential towards construction of around 2.6 msf of additional area. While these plans are at a nascent stage at present, the ratings will remain sensitive to the funding mix and its impact on the company's leverage metrics going forward.

ICRA believes the company's credit profile will remain Stable on the back of a steady operational portfolio, strong tenant profile, robust coverage metrics and low leverage across its assets.

[1] *Including external debt of MBPPL and higher of debt taken by MBPPL from Mindspace REIT or guaranteed debt backed by security of MBPPL raised at REIT level.*

Key rating drivers and their description

Credit strengths

Strength derived from parentage and status as a strategically important SPV of Mindspace REIT – MBPPL's entire stake is held by Mindspace Business Parks REIT. The REIT owns a large asset portfolio comprising some of the major business parks located in Mumbai, Hyderabad, Pune and Chennai. The asset portfolio of the REIT has a total leasable area of 32.0 msf, including a completed area of 25.6 msf, under-construction area and area for future development of 6.4 million sqft. MBPPL is a strategically important special purpose vehicle (SPV) for Mindspace REIT, contributing to 29% of Mindspace REIT's consolidated NOI and around 28% of the REIT's consolidated asset valuation as of 9M FY2023.

Comfortable leverage and coverage metrics – The leverage and coverage metrics remain comfortable with five-year average DSCR (FY2023-FY2027) estimated to be above 2.0 times and leverage (Debt/NOI) is expected to be less than 4.0 times in the medium term.

Geographically diversified portfolio with strong tenant profile – The company has a diversified commercial portfolio in the key micro-markets of three cities – Mumbai, Pune and Hyderabad – with a total completed area of 7.7 msf and 2.6 msf of under-construction and future development area, respectively. The largest project owned by MBPPL is located at Airoli East, Mumbai, with a total completed area of 4.7 msf. The other assets include Mindspace – Pocharam, Hyderabad, Commerzone, Pune and The Square, Pune. The tenant profile remains strong across projects with reputed names such as Accenture, L&T Infotech, Schlumberger, Wipro, eClerx, Genpact, etc. Also, the rental rates offered by MBPPL are competitive in comparison to the respective micro-markets of the projects.

Credit challenges

Exposure to high tenant concentration risk – The tenant concentration risk remains high across all projects. The top five tenants contribute approximately 57% of the gross rental income at Mindspace Airoli East, Mumbai; 71% at Commerzone Yerwada, Pune; and 100% of the rentals at Mindspace Pocharam, Hyderabad and The Square Nagar Road, Pune. However, the strong tenant profile, long-term leases, competitive rentals for most assets and significant investments in fitouts by tenants mitigate the tenant concentration risk to a major extent. Risks associated with high dependence on timely remittance of rentals by the tenants are exacerbated, given the absence of DSRA in most of the loans. The risk of delayed remittance is mitigated by strong counterparties with timely payment track record, well-diversified rental pool, along with healthy cushion in coverage metrics.

Vulnerable to cyclicality – The company remains exposed to the inherent cyclicality in the real estate industry and vulnerability to external factors. The occupancy in MBPPL's portfolio declined marginally to 87% as of December 2022 from 89% as of December 2021. However, with resumption in back-to-office plans, the occupancy levels are likely to remain stable in the medium term.

Future development potential and its impact on leverage metrics – The company has future development potential of around 2.6 msf of additional area. While these capex plans are at a nascent stage at present, the ratings will remain sensitive to the funding mix and its impact on the leverage indicators going forward.

Liquidity position: Strong

The company's liquidity position is strong and will be supported by stable rental income from the underlying assets and low operational expenditure in the leasing business. The cash flow from operations are expected to be adequate to cover the debt servicing obligations. The average monthly principal and interest obligations in FY2024 are estimated at around Rs. 16 crore. Additionally, it reported free cash and bank balances of Rs. 26.4 crore as on September 30, 2022.

Rating sensitivities

Positive factors – Not Applicable

Negative factors – ICRA could downgrade MBPPL's ratings if a significant increase in borrowings or a material decline in the NOI leads to an increase in the Net Debt/NOI to above 6.0 times on a sustained basis. Further, any deterioration in the credit profile of the Mindspace REIT might have a bearing on MBPPL's ratings.

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 MBPPL's parent will be willing to extend financial and operational support to it, if required, given the strategic importance of MBPPL to the Mindspace REIT, and the significant contribution of the SPV to the overall NOI and valuation of the REIT
Consolidation/Standalone	The ratings are based on the company's standalone financial statements

About the company

Incorporated in December 2003, Mindspace Business Parks Private Limited (MBPPL) was promoted by the CL Raheja Group. The company was acquired by Mindspace Business Parks REIT in August 2020 and is now a 100% subsidiary of the REIT. As on date, it has four commercial projects under operations with total leasable area of 10.3 msf, of which 7.7 msf is completed with a healthy occupancy of 87%.

Key financial indicators

	FY2021(A)	FY2022(A)	9M FY2023(Prov.)
Operating income	578.5	566.8	463.2
PAT	261.0	289.3	142.9
OPBDIT/OI	73.8%	74.0%	69.4%
PAT/OI	45.1%	51.0%	30.9%
Total outside liabilities/Tangible net worth (times)	4.9	4.5	NA
Total debt/OPBDIT (times)	3.8	3.7	NA
Interest coverage (times)	2.5	3.3	3.2

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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 12, 2023	Apr 14, 2022	May 31, 2021	Feb 28, 2020
1	**Fund-based TL**	Long term	1255.75	902.4	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]A+ (Stable)**
2	**Unallocated**	Long-term	-	-	-	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]A+ (Stable)**
3	**Fund-based**	Short-term	-	-	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1**
4	**Non-fund based**	Short-term	75.00	10.1	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1**
5	**NCD**	Long term	490.00	490.00	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based TL	Simple
Short-term – Non-fund based	Very Simple
NCD	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	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan-I**	FY2019	NA	FY2028	243.64	[ICRA]AAA(Stable)
NA	**Term loan-II**	FY2023	NA	FY2038	400.00	[ICRA]AAA(Stable)
NA	**Term loan-III**	FY2020	NA	FY2031	236.81	[ICRA]AAA(Stable)
NA	**Term loan-IV**	FY2017	NA	FY2029	375.30	[ICRA]AAA(Stable)
NA	**Non-fund based limits**	NA	NA	NA	75.00	[ICRA]A1+
INE427L07011	**NCD**	FY2023	NA	FY2028	490.00	[ICRA]AAA(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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