

April 21, 2023

## Gateway Office Parks Private Limited: Rating downgraded to [ICRA]BBB (Negative) from [ICRA]BBB+ (Negative)

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	1,130.0	1,074.0	[ICRA]BBB (Negative); downgraded from [ICRA]BBB+ (Negative)
Long-term – Non-fund based – Bank guarantee	60.0	61.0	[ICRA]BBB (Negative); downgraded from [ICRA]BBB+ (Negative)
Unallocated	10.0	0.0	-
<b>Total</b>	<b>1,200.0</b>	<b>1,135.0</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating action factors in the likely moderation in Gateway Office Parks Private Limited's (GOPPL) debt coverage metrics and an increase in its leverage metrics owing to a decline in the occupancy levels of the asset. The space rationalisation by the company's major tenants will result in reduction of occupancy levels to 42% by H1FY2024 from 57% as of April 2022 leading to near-term pressure on operational cash flows and debt protection metrics. While it was able to refinance its earlier debt at favourable terms in FY2023, the debt coverage metrics are expected to remain weak in absence of new leasing tie-ups. In addition, the debt coverage ratios remain exposed to adverse movements in interest rates and occupancy levels. Further, though the company tied-up new leases in FY2023, the market risk remains high with exit of few of the former tenants. The rating continues to be constrained by the company's revenue concentration risk, with dependence on a single asset in Chennai, thereby exposing the entity to fluctuations in a single asset/market's performance. The tenant concentration is high with top three tenants contributing to around 77% of the leased area. While ICRA notes that the company is in discussions with several prospective tenants and the leases are anticipated to be the tied-up over the near to medium term, its ability to tie-up leases at adequate rentals, in a timely manner, remains a key monitorable.

The rating continues to factor in the operational track record of the asset, its presence in an IT-SEZ area in the business district in Perungalathur, Chennai. Notwithstanding the high tenant concentration, ICRA notes that the tenant profile is strong and comprises reputed multinational companies, which moderates the counterparty risks to a considerable extent. The rating also considers the company is sponsored by the Xander 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. ICRA notes that the earlier outstanding debt of Rs. 936.3 crore as of March 2022 was refinanced by a debt of Rs. 1,074 crore, which has an elongated tenure (15 years as against residual tenor of 13 years earlier) and lower interest rate with an escrow structure and debt service reserve account (DSRA) equivalent to one quarter of interest and principal repayment.

The outlook on the long-term rating remains Negative on account of a sustained pressure on occupancy levels, which is likely to exert near-term pressure on its operational cash inflows and debt protection metrics.

## Key rating drivers and their description

### Credit strengths

**Operational track record of the asset** – The operational property is spread over 3.5 million square feet (msf) of leasable area. It is located in the IT-SEZ in Perungalathur, Chennai, in Peripheral Business District (PBD). Given the quality of development and the favourable location, GOPPL has leased space to reputed IT companies, which mitigates the counterparty risks to a large extent.

**Long tenure of debt** – ICRA notes that the earlier outstanding debt of Rs. 936.3 crore as of March 2022 was refinanced by a debt of Rs. 1,074 crore, which has an elongated tenure (15 years against residual tenor of 13 years earlier) and lower interest rate with an escrow structure and DSRA equivalent to one quarter of interest and principal repayment.

**Sponsored by the Xander Group which has presence across commercial, retail, and industrial segments of the real estate sector** – GOPPL is sponsored by The Xander 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

**High market risk** – The company is exposed to high market risk, given the high vacancy levels in the asset. The space rationalisation by the company's major tenants will result in reduction of occupancy levels to 42% by H1FY2024 from 57% as of April 2022 leading to near-term pressure on operational cash flows and debt protection metrics. GOPPL is in discussions with several prospective tenants and the leases are expected to be the tied-up over the near to medium term. However, its ability to tie-up leases at adequate rentals, in a timely manner, remains a key monitorable.

**Moderation in operational cash flows and debt protection metrics** – Increase in vacancy levels over the past two-three years resulted in a decline in the operational cash flows and weakening of debt coverage metrics. While the company was able to refinance its earlier debt in FY2023, the debt coverage metrics are expected to remain weak in absence of new leasing tie-ups. In addition, the debt coverage ratios remain exposed to adverse movements in interest rates and occupancy levels.

**Revenue concentration risks** – GOPPL owns a single asset in Chennai and hence remains susceptible to any adverse changes in the operational profile of the asset, and to the demand-supply scenario of the particular micro market. Moreover, tenant concentration in the operational area is high with around 77% of the leased area being occupied by the top three lessees. However, ICRA notes that the tenant profile is strong and comprises reputed multinational companies, which moderates the counterparty risks to a considerable extent.

### Liquidity position: Adequate

The company's liquidity position is adequate. The company had with total cash and equivalents Rs. 180.1 crore (includes Rs.30.9 crore towards DSRA and BG requirements) as on March 31, 2023. The company maintains DSRA equivalent to one quarter of interest and principal payments, which provides cushion in case of temporary cash flow mismatch. While the debt coverage metrics are expected to remain weak in the near term, GOPPL has sufficient liquidity to support any shortfall in operating cash flows. In addition, the company has capex payables of Rs.130 crore over the next two years.

### Rating sensitivities

**Positive factors** – Given the Negative outlook, a rating upgrade would be unlikely in the near term. The outlook may be revised to Stable if the company is able to achieve significant improvement in its coverage and leverage metrics through ramp-up in occupancy and adequate rental rates.

**Negative factors** – Negative pressure on the rating could arise in case of the company's inability to ramp-up occupancy at adequate rental rates leading to weakening of leverage, coverage, and liquidity position. Further, higher-than-expected indebtedness will be a credit negative.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Debt Backed by Lease Rentals</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the company's standalone financial statements

## About the company

Gateway Office Parks Pvt Ltd (formerly known as Shriram Properties & Infrastructure Pvt Ltd) is a special purpose vehicle (SPV), acquired by The Xander Group in June 2017 from the Shriram Group and Sun Apollo Real Estate. The company owns a commercial property named Gateway Office Parks, located in the IT-SEZ in Perungalathur, Chennai, spread across around 3.5 msf of leasable area.

## Key financial indicators (audited)

GOPPL – Standalone	FY2021	FY2022
Operating income	158.8	142.8
PAT	33.0	-5.9
OPBDIT/OI	74.8%	71.0%
PAT/OI	20.8%	-4.2%
Total outside liabilities/Tangible net worth (times)	12.2	14.1
Total debt/OPBDIT (times)	7.3	9.2
Interest coverage (times)	2.3	1.8

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; 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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Apr 21, 2023	Apr 20, 2022	-	Jan 08, 2021
1 Term loan	Long term	1,074.0	1,051.0	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	-	[ICRA] BBB+ (Stable)
2 Bank guarantee	Long term	61.0	59.6	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	-	[ICRA] BBB+ (Stable)
3 Unallocated	Long term	0.0	-	-	[ICRA]BBB+ (Negative)	-	[ICRA] BBB+ (Stable)

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Bank guarantee	Very 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	December 2022	-	FY2037	1,074.0	[ICRA]BBB (Negative)
NA	Bank guarantee	December 2022	-	-	61.0	[ICRA]BBB (Negative)

Source: Company

#### Annexure II: List of entities considered for consolidated analysis – Not Applicable

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### Branches



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