

September 20, 2023

Indospace Industrial Park Badli Private Limited: Ratings 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 loans	166.90	298.50	[ICRA]BBB+ (Stable) reaffirmed/assigned for enhanced amounts
Long-term – Fund-based – Lease rental discounting	231.09	231.09	[ICRA]A- (Stable) reaffirmed
Long-term – Non-fund based – Letter of credit#	(15.00)	(15.00)	[ICRA]BBB+ (Stable) reaffirmed
Long-term – Non-fund based – Bank guarantee	15.00	15.00	[ICRA]BBB+ (Stable) reaffirmed
Total	412.99	544.59	

#sublimit of Term Loans

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in the favourable location of the warehousing park being developed by Indospace Industrial Park Badli Private Limited (IIPBPL), lease tie ups for 53% (8 out of 20 blocks leased), rental commencement for 43.5% (7 out of 20 blocks leased) of the total leasable area and the presence of reputed tenants for the leased area. Based on 43.5% rentals (7 leased blocks) of the total leasable area, the company has refinanced a part of the construction finance (CF) debt with lease rental discounting (LRD) loans. The rating of [ICRA]A- for the LRD facility notes the identified cash flows from the operational blocks for servicing this facility, along with ring-fencing structure preventing commingling with other cash flow streams. The LRD facility has been availed at 5.7 times of the annualised rent from the identified blocks and the 5-year average DSCR is projected to be adequate at around 1.15-1.18 times during FY2024-FY2028. Further, comfort is drawn from the presence of a debt service reserve account (DSRA) balance equivalent to three months of debt servicing being maintained by the company for the LRD facility.

Phase II of the project is proposed to be funded in a debt-to-equity ratio of 1.08:1. The same is scheduled for completion in December 2026, which is expected to result in comfortable leverage metrics on completion. The balance CF facility is likely to be converted to LRD as leasing tie-ups take place. At full occupancy, IIPBPL's leverage is estimated to be comfortable with Total External Debt/Annualised NOI of 4.6 times in FY2027 and the coverage is expected to be adequate with a five-year average DSCR of around 1.23-1.26 times. The ratings continue to draw comfort from the strong business profile of the IndoSpace network with an established track record in the industrial, warehousing and logistics park business in India. The project faces low funding risk, as 90% of the promoter's contribution has been infused as on March 31, 2023, and the debt tie-up is in place.

The ratings, however, are constrained by the project's exposure to execution risks with 77% of cost for Phase II and 7% of cost for Phase I yet to be incurred as of March 2023. There has been an increase in the project scope with the addition of three more blocks, taking the total number of blocks to 20 and increasing the total leasable area to 3.56 million square feet (msf) from 2.77 msf. Consequently, the total project cost stands at Rs. 951.4 crore against the earlier cost of Rs. 728.3 crore. For the three under-construction blocks of Phase I, the DCCO has been extended by two years to September 2024 with a consequential shift in the repayment schedule to November 2024. Nonetheless, given the extensive experience of the sponsor in the warehousing space, ICRA expects the construction to be completed within the scheduled DCCO without any material time and cost overruns. The ratings are constrained by the market risks, with leases for 47% of the total area yet to be tied up and timely leasing for the balance area at adequate rental rates will remain a key rating monitorable. Nevertheless, ICRA derives comfort

from the demonstrated ability and track record of the IndoSpace network to lease and execute projects on time. The company is exposed to high geographical and asset concentration risks inherent in single project companies.

The Stable outlook reflects ICRA's opinion that the company will benefit from the extensive experience of its sponsors in the warehousing space and be able to complete the project without any material cost overruns as well as secure lease tie-ups at adequate rental rates.

Key rating drivers and their description

Credit strengths

Strong track record and business profile of sponsors; financial flexibility from being part of a strong sponsor group – IIPBPL is promoted by ILP II Ventures XII Pte. Ltd, Singapore (part of the IndoSpace network). IndoSpace is sponsored by Realterm Global, Everstone Capital and GLP Global. Realterm Global has more than 20 years of experience in developing industrial and logistics parks across the world. At present, it manages assets worth over USD 4 billion and operates some of the largest and most modern facilities in North America and other parts of the world. Everstone Capital is a prominent India-focused investment firm, and the Everstone Group manages funds of over USD 5 billion in private equity and real estate. GLP Global is an investment firm with over USD 60 billion assets under management (AUM) across the real estate and private equity segments. ICRA derives comfort from the high financial flexibility of the network and its track record of honoring sponsor undertakings to lenders and infusion of funds into various special purpose vehicles (SPVs), whenever needed.

Favourable project location – The project is in Badli, Haryana. Haryana is one of India's leading states for industrial production and a location of choice for auto majors and auto component manufacturers. The project is located on MDR 123 (Jhajjar-Badli Road) and at a distance of ~8 km from Delhi border, ~7 km from Kundali Manesar Palwal (KMP) Expressway, ~60 km from New Delhi airport and ~50 km from New Delhi Railway station. Also, the National Capital Region (NCR) is one of the most preferred warehousing hubs in the country. Thus, the project location has been witnessing growing interest from 3PL, e-commerce, logistics companies in the recent years.

Low funding risk; conversion of partial CF loan to LRD provides further comfort – The project faces low funding risk, as 90% of the promoter's contribution has been infused as on March 31, 2023, and the debt tie-up is in place. The rentals for 43.5% (7 out of 20 blocks leased) of the total leasable area have already commenced. The rentals for the entire tied up area of 18.8 lakh sq. ft. would commence by October 2023. Based on 43.5% rentals (7 leased blocks) of the total leasable area, the company has refinanced part of the CF debt with LRD loans. The balance CF facility is also expected to be converted to LRD as leasing tie-ups take place. Further, comfort is drawn from the presence of a DSRA balance equivalent to three months of debt servicing being maintained by the company for the LRD facility.

Credit challenges

Exposure to project execution risk – The project is exposed to execution risks with 77% of cost for Phase II and 7% of cost for Phase I, yet to be incurred as on March 31, 2023. As of June 2023, 12 out of 15 blocks of Phase I were completed, while 2 blocks were under construction and construction for 1 block was yet to commence. For Phase II, 1 out of 5 blocks was under construction, while construction for 4 blocks was yet to commence. Nonetheless, given the extensive experience of the sponsor in the warehousing space, ICRA expects the construction to be completed within the scheduled DCCO without any material time and cost overruns.

Exposed to market risks – IIPBPL remains exposed to market risk with leases for 47% of the total area yet to be tied up as on date. The company has completed the construction of twelve units with a leasable area of 23 lakh sq. ft. (65% of the total leasable area) and has started receiving rentals for 15.5 lakh sq ft (43.5% of the leasable area) as on date. The rentals for the entire tied up area of 18.8 lakh sq. ft. would commence by October 2023. Timely leasing for the balance area at adequate

rental rates remains a key rating monitorable. Nevertheless, ICRA derives comfort from the demonstrated ability and track record of IndoSpace to lease and execute projects on time.

Geographical and asset concentration risks – IIPBPL is exposed to high geographical and asset concentration risks inherent in single project companies. However, ICRA draws comfort from IndoSpace’s diverse portfolio of logistics and industrial parks, including developed and under-development parks, across India.

Liquidity position: Adequate

The company’s liquidity position is adequate. As on March 31, 2023, the company had Rs. 29.2-crore of unencumbered cash and liquid investments, and Rs. 170.1-crore undrawn bank limits, which along with the pending equity commitments of Rs. 45.37 crore will be adequate to fund the remaining project cost of Rs. 244 crore. The cash flow from operations from the leased blocks are sufficient for the servicing of the LRD debt obligations. Additionally, the project is expected to generate adequate cash flow from operations to service its debt servicing obligations, supported by timely tie-ups of leases and commencement of rentals for the remaining area.

Rating sensitivities

For the [ICRA]A- rating

Positive factors – ICRA could upgrade the rating if there is a significant increase in the rental income resulting in healthy leverage and debt coverage indicators, with five-year average DSCR of greater than 1.3 times, on a sustained basis.

Negative factors – Negative pressure on the rating could arise if there is any material reduction in occupancy, or a significant increase in indebtedness result in moderation of leverage and coverage metrics.

For [ICRA]BBB+ rating

Positive factors – Timely completion of the project without any major cost overruns, along with a material ramp-up in leasing at adequate rental rates, resulting in adequate cash flow generation and debt coverage could result in a rating upgrade. Specific credit metrics for an upgrade would be the company achieving a leasing progress of above 85% (of the leasable area of 3.56 msf).

Negative factors – Cost overruns or unforeseen delays in the completion of the project could exert negative pressure on the rating. Delays in achieving lease tie-up at adequate rental rates or additional indebtedness leading to weakening of leverage and debt coverage metrics could trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Indospace Industrial Park Badli Private Limited (IIPBPL) is developing an industrial, warehousing, and logistic park at Badli, Haryana, spread over 153 acres of land, having a total leasable area of 35.6 lakh sq ft across 20 units, whereby Phase I has 15 blocks comprising 26.45 lakh sq ft and Phase II has 5 blocks covering 9.13 lakh sq ft (against the original scope of 17 blocks of 27.8 lakh sq ft). As on June 30, 2023, 12 out of 15 blocks of Phase I were completed, while 2 blocks were under construction and construction for 1 block was yet to commence. For Phase II, 1 out of 5 blocks was under construction, while construction

for 4 blocks was yet to commence. It is promoted by ILP II Ventures XII Pte. Ltd., part of the IndoSpace network, which holds 100% stake in the company. The project has a scheduled commercial operation date of September 30, 2024, and December 31, 2026, for Phase I and Phase II respectively. Earlier the project was envisaged on a land area admeasuring 138 acres, which would entail total built-up area of 25 lakh sq ft. The said project is now being expanded and will entail revised built-up area of 33.7 lakh sq ft and a leasable area of 35.6 lakh sq ft.

Key financial indicators (audited)

IIPBPL	FY2022	FY2023
Operating income	19.0	39.5
PAT	-19.7	-22.6
OPBDIT/OI	78.5%	80.8%
PAT/OI	-103.4%	-57.3%
Total outside liabilities/Tangible net worth (times)	5.7	6.6
Total debt/OPBDIT (times)	34.1	18.1
Interest coverage (times)	0.6	0.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; all ratios as per ICRA's calculations

Source: Company

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 on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Sep 20, 2023	Jul 15, 2022	May 26, 2021	-
1 Term loans	Long term	298.5	128.4	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-
2 Lease rental discounting	Long term	231.09	218.7	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-
3 Letter of credit (Sublimit of term loans)	Long term	(15.00)	Nil	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-
4 Bank guarantee	Long term	15.00	Nil	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based - Term Loans	Simple
Long-term - Fund-based - Lease rental discounting	Simple
Long term - Non-Fund Based -Letter of credit (sublimit of term loans)	Very Simple
Long term - Non-Fund Based -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 loans (CF)	June 2019	NA	FY2037	298.50	[ICRA]BBB+ (Stable)
NA	Lease rental discounting	July 2020	NA	FY2033	231.09	[ICRA]A- (Stable)
NA	Letter of Credit (Sublimit of term loans)	NA	NA	NA	(15.00)	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	15.00	[ICRA]BBB+ (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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