September 25, 2023

Neovantage Innovation Park 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	245.00	245.00	[ICRA]BBB (Stable); reaffirmed
Total	**245.00**	**245.00**	

Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Neovantage Innovation Park Private Limited (NIPPL) factors in the healthy occupancy levels of the existing operational buildings, reputed tenant profile, comfortable debt protection metrics and attractive location of the assets. The current occupancy for Building 1800 (0.14 msf) and Building 2700 (0.16 msf) is almost 100%. The new Building 3600 (0.18 msf), which was completed in December 2022, reported an occupancy of 70% as of August 2023. The occupancy of Building 3600 is expected to further improve in the near term. NIPPL has a reputed tenant profile viz. Novartis Healthcare Private Limited, Ashland India Private Limited, Sandoz India Private Limited, Alembic Ltd with long-term lease agreements. The rating considers the attractive location of Neovantage Innovation Parks, in Genome Valley, Hyderabad, which is an established biotech and pharma research and development (R&D) hub resulting in heathy occupancy levels. The leverage is likely to remain comfortable with total debt/Net Operating Income (NOI) of around 5.7 times as of March 2024 and the five-year average DSCR (FY2024-FY2028) is estimated to be around 1.25-1.30 times.

The rating is, however, constrained by the execution and market risks associated with the upcoming Building 9900 of 0.17 msf, which is in the nascent stage of construction and is yet to be pre-leased. However, comfort can be taken from the execution and leasing track record of the existing buildings. NIPPL is exposed to high tenant concentration, with top five tenants occupying 63% of the total leased area and contributing to 82% of the total rental income for FY2023. This exposes the company to high market risks in case any of these tenants vacate their areas. Nonetheless, ICRA draws comfort from the long-term lease agreements with reputed clients and the high initial investment from tenants, which increases the client stickiness. Also, the tenant concentration is expected to improve in the near term with new tenants onboarded in Building 3600 from December 2022. The rating notes the vulnerability of debt coverage ratios to factors such as changes in interest rates and decline in occupancy levels. Further, the company does not maintain debt service reserve account (DSRA) in line with sanction terms, which can provide support in case of any short-term cash flow mismatches.

Key rating drivers and their description

Credit strengths

Attractive property location, healthy occupancy, and reputed tenant profile – NIPPL benefits from the attractive location in Genome Valley, Shamirpet, Hyderabad, which is an established biotech and pharma R&D hub. The company enjoys healthy occupancy for its assets, with Building 1800 (0.14 msf) and Building 2700 (0.16 msf) remaining fully occupied. The new Building 3600 (0.18 msf), which was completed in December 2022, reported an occupancy of 70% as of August 2023. The occupancy for Building 3600 is expected to further improve in the near term. The company has a reputed tenant profile viz. Novartis Healthcare Private Limited, Ashland India Private Limited, Granules India Ltd, Alembic Ltd, Sandoz India Private Limited, with long-term lease agreements.

Healthy leverage and coverage metrics – The company's total external debt stood at Rs. 188.7 crore as on March 31, 2023, and it reported NOI of Rs. 37.8 crore in FY2023. The debt levels are expected to increase in FY2024 and FY2025 due to the proposed debt addition for Building 9900. However, NIPPL's leverage is likely to remain comfortable with Debt/NOI of around 5.7 times by the end of FY2024 and the five-year average DSCR (FY2024-FY2028) is estimated to be around 1.25-1.30 times.

Credit challenges

Nascent stages of construction for Building 9900 – NIPPL is exposed to execution and market risks associated with the upcoming Building 9900 of 0.17 msf, which is in the nascent stage of construction and is yet to be pre-leased. However, comfort can be taken from the execution and leasing track record of the existing buildings. The total cost of construction for Building 9900 is expected be around Rs. 120 crore and will be funded through debt to equity ratio of 55:45.

High tenant concentration risk – NIPPL is exposed to high tenant concentration risk with top five tenants occupying around 63% of the total leased area and contributing to 82% of the total rental income in FY2023. This exposes the company to high market risks in case any of these tenants vacate their areas. Nonetheless, ICRA draws comfort from the long-term lease agreements with reputed clients and the high initial investment from tenants, which increases client stickiness. Also, the tenant concentration is expected to improve in the near term with new tenants onboarded in Building 3600 from December 2022.

Exposure to change in interest rates and reduction in occupancy levels – The rating notes the vulnerability of debt coverage ratios to factors such as changes in interest rates and decline in occupancy levels. Further, the company does not maintain DSRA in line with the sanction terms, which can provide support in case of any short-term cash flow mismatches.

Liquidity position: Adequate

NIPPL's liquidity profile is adequate, with unencumbered cash balance and liquid investments of Rs. 40.9 crore as on July 31, 2023. The company has a debt repayment obligation of Rs. 7.1 crore in FY2024 and Rs. 10.2 crore in FY2025, which is expected to be comfortably serviced through its estimated cash flow from operations. It has capex plans of around Rs. 120 crore in FY2024-FY2026 towards Building 9900, which will be funded by a debt of Rs. 65 crore and internal accruals of Rs. 55 crore. The debt is likely to be sanctioned by October 2023.

Rating sensitivities

Positive factor – ICRA could upgrade NIPPL's rating if the company demonstrates an increase in scale, supported by improvement in occupancy levels for operational buildings and timely construction and leasing of under-construction asset, while maintaining comfortable debt leverage and coverage metrics.

Negative factor – Downward pressure on the rating might emerge if there is a material decline in the occupancy levels or significant increase in indebtedness resulting in weakening of debt protection metrics and liquidity position on a consistent basis. Specific credit metrics for a rating downgrade include five-year average DSCR of less than 1.10 times on a sustained basis.

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	For arriving at the rating, ICRA has considered the company's standalone financials.

About the company

Neovantage Innovation Park Private Limited (NIPPL) (earlier known as MN Takshila Industries Private Limited) is a subsidiary of Ivanhoe India Equities Inc and the ultimate parent is Caisse de dépôt et placement du Québec (CDPQ). It has three operational assets (Building 1800, Building 2700 and Building 3600) with a total leasable area of 0.48 msf in Genome Valley, which is an established biotech and pharma R&D hub in Shamirpet, Hyderabad. It has one asset (Building 9900) under construction at Genome Valley, with a total leasable area of 0.17 msf.

Key financial indicators

Standalone	FY2022	FY2023
	Audited	Provisional
Operating income (Rs. crore)	42.4	50.2
PAT (Rs. crore)	27.9	10.4
OPBDIT/OI	74.3%	67.8%
PAT/OI	65.8%	20.8%
Total outside liabilities/Tangible net worth (times)	2.8	3.4
Total debt/OPBDIT (times)	5.0	6.2
Interest coverage (times)	1.7	2.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation
Source: Company, ICRA Research

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 Mar 31, 2023 (Rs. crore)	Date & rating in	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Sep 25, 2023	Jun 27, 2022	-	Mar 05, 2021	May 22, 2020
1	Fund-based – Term loan	Long-term	245.00	188.7	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
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**	December 2019	NA	April 2032	180.00	[ICRA]BBB (Stable)
NA	**Term loan**	March 2022	NA	April 2032	65.00	[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 - NA

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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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