October 06, 2023

IG3 Infra Limited: Rating upgraded to [ICRA]BBB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	1811.08	1811.08	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Long-term - Non-fund based	47.52	47.52	
Long-term – Unallocated	22.00	22.00	
Total	**1880.60**	**1880.60**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for IG3 Infra Limited (IG3) factors in the healthy increase in occupancy levels to 98% (including LOI) as of August 2023 from 80% as of June 2022 resulting in an estimated improvement in rentals and consequently the leverage and debt coverage metrics in FY2024, which are expected to sustain in the medium term. The leverage is likely to be adequate, with total debt to net operating income (NOI) at around 6.2 times (PY: 7.4 times) as of March 2024 and healthy debt coverage metrics, with five-year average DSCR in the range of 1.25-1.30 times for FY2024-FY2028. The rating continues to note the favourable location of the property 'Chennai One IT SEZ', which is owned and operated by IG3, close to the IT corridor of Old Mahabalipuram Road (OMR) in Chennai. The rating also favourably considers the reputed tenant profile of the company.

The rating is, however, constrained by the high tenant concentration risk with the top tenant alone accounting for 33% of the area leased as of August 2023. Also, the top five tenants together constitute 66% of the leased area. Further, the weighted average lease expiry (WALE) of the asset remains at 3.1 years compared to the remaining debt maturity of around 11 years, thereby exposing it to lease renewal risk. However, significant investments made by tenants towards fit-outs and competitive rentals mitigate the risk to an extent. The company is exposed to high geographical and asset concentration risks inherent in single project portfolios. Further, the debt coverage metrics remain exposed to changes in interest rates or material reduction in occupancy levels. The rating is constrained by the investments made by IG3 in Group companies and other non-revenue generating projects, which impact its return on capital employed.

The Stable outlook reflects ICRA expectation that the company will benefit from the favourable location of the project and healthy occupancy levels.

Key rating drivers and their description

Credit strengths

Favourable location of the property – Chennai One IT SEZ is located on the Pallavaram-Thoraipakkam, 200-Ft Road, close to the IT corridor of Old Mahabalipuram Road (OMR) in Chennai. The asset has a total leasable area of 3.7 million square feet (msf), which has been developed in phases. The proximity of the SEZ to one of the prominent markets for office leasing supports demand prospects.

Healthy occupancy levels resulting in improvement in debt metrics – The healthy increase in occupancy levels to 98% (including LOI) as of August 2023 from 80% as of June 2022 is estimated to result in an improvement in rentals and consequently the leverage and debt coverage metrics in FY2024, which are likely to sustain in medium term. The leverage is expected to be adequate, with total debt to net operating income (NOI) at around 6.2 times (PY: 7.4 times) as of March 2024 and healthy debt coverage metrics, with five-year average DSCR in the range of 1.25-1.30 times for FY2024-FY2028. Further, the company maintains DSRA of 1 to 3 months of principal and interest obligations in line with the sanctioned terms.

Reputed tenant profile – The property is leased out to reputed companies. The occupancy is healthy for Phase 1 at 96% and North Block of Phase 2 at 94% as of August 2023. The occupancy of South Block of Phase 2 has ramped up to 79% as of August 2023 from 33% as of June 2022. Further, it has entered into lease agreements/LOI, resulting in an increase in occupancy to 98% as of August 2023 from 80% as of June 2022.

Credit challenges

Tenant concentration and lease renewal risk – The top tenant accounts for 33% of the area leased as of August 2023. Also, the top five tenants together account for 66% of the leased area, exposing the company to tenant concentration risk. Further, the weighted average lease expiry (WALE) of the asset remains at 3.1 years as compared to the remaining debt maturity of around 11 years, thereby exposing it to lease renewal risk. However, significant investments made by tenants towards fit-outs and competitive rentals mitigates the risk to an extent.

Geographical and asset concentration risks – The company is exposed to high geographical and asset concentration risks inherent in single project portfolio.

High investments and advances to group companies and other projects – As on March 31, 2023, IG3 had investments and advances extended to related parties and subsidiaries to the tune of Rs. 437.5 crore. Besides, IG3 has invested in certain projects and non-cash generating assets. While the company does not have any further construction activity planned for the IT park, the scale of future capex and investments in other projects and mode of funding them will be key rating sensitivities.

Liquidity position: Adequate

The company has adequate liquidity with unencumbered cash and bank balance of Rs. 64.8 crore as on September 12, 2023. It has a debt repayment obligation of Rs. 219.8 crore in FY2024, which can be adequately serviced through estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade IG3's rating if the company demonstrates a sustained reduction in leverage levels and improvement in debt coverage metrics. Specific credit metrics include 5-year average DSCR greater than 1.3 times on a sustained basis.

Negative factors – The rating may be downgraded if there is a material decline in occupancy levels or significant increase in indebtedness resulting in weakening of debt coverage and leverage metrics on a sustained basis. Specific credit metric for a downgrade include the five-year average DSCR declining below 1.15 times.

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	The ratings are based on the standalone financial profile of the entity

About the company

IG3 Infra Limited (formerly known as Indian Green Grid Group Limited), a Chennai-based company, has developed an IT SEZ (Information Technology- Special Economic Zone) – 'Chennai One', at Pallavaram-Thoraipakkam, in Chennai, with a total leasable commercial space of 3.7 msf. The company is promoted by Ms. Unnamalai Thiagarajan in 2004. The company completed the first phase of the IT SEZ on a land area of 7.86 acres with leasable area of 1.05 msf in FY2007. Further, the North Block and South Block of the second phase, got commercialised in FY2016 and FY2019, respectively.

Key financial indicators

Standalone	FY2022	FY2023
	Audited	Provisional
Operating income	256.7	332.3
PAT	6.6	46.4
OPBDIT/OI	72.5%	84.1%
PAT/OI	2.6%	14.0%
Total outside liabilities/Tangible net worth (times)	2.5	2.4
Total debt/OPBDIT (times)	9.9	6.5
Interest coverage (times)	1.1	1.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; all ratios as per ICRA's calculation
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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	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
					Oct 06, 2023	Sept 23, 2022	Jun 18, 2021	Nov 17, 2020
1	**Term loans**	Long term	1811.08	1802.7	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB@**
2	**Non-fund based**	Long term	47.52	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB@**
3	**Unallocated**	Long term	22.00	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	-

@= Under Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Non-fund based	Very Simple
Long term – Unallocated	Not Applicable

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**	FY2019-FY2020	NA	FY2035	1453.08	[ICRA]BBB+ (Stable)
NA	**Term loan-II**	FY2022	NA	FY2035	358.00	[ICRA]BBB+ (Stable)
NA	**Non-fund based**	NA	NA	NA	47.52	[ICRA]BBB+ (Stable)
NA	**Unallocated**	NA	NA	NA	22.00	[ICRA]BBB+ (Stable)

Source: Company

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.

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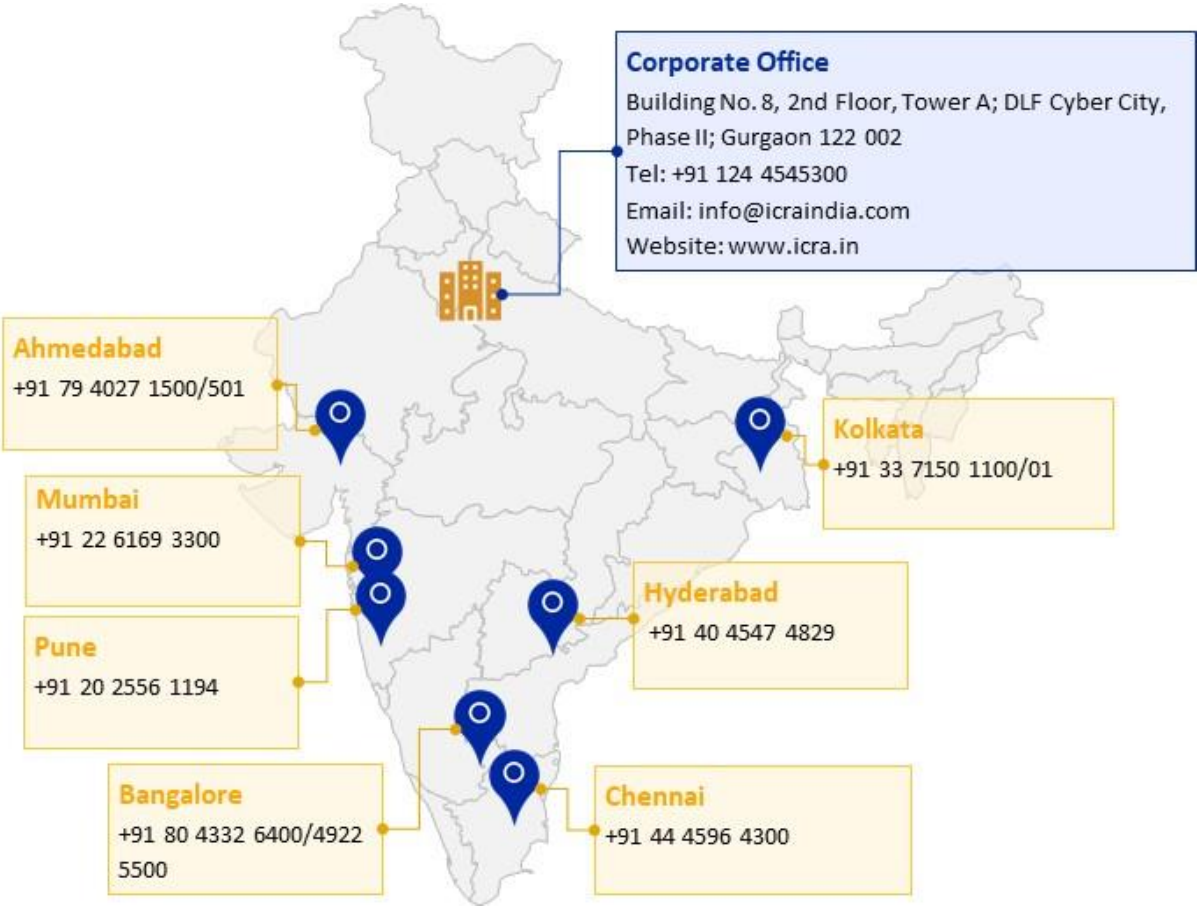

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