October 09, 2023(Revised)

Hecate Warehousing Private Limited: Rating downgraded to [ICRA]A- (Negative) from [ICRA]A (Negative)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	194.3	194.3	[ICRA]A- (Negative); downgraded from [ICRA]A (Negative)
Total	**194.3**	**194.3**	

**Instrument details are provided in Annexure-I*

Rationale

The downgrade of the long-term rating on the bank lines of Hecate Warehousing Private Limited (HWPL) and negative outlook factors in the moderation in debt coverage metrics owing to the delay in rent commencement of one of the warehousing blocks resulting in lower-than-expected NOI[1]. Lower NOI along with ballooning repayment obligations amidst increase in repo-linked rate of interest led to weakening of debt coverage metrics with expected DSCR[2] falling below 1 times for FY2024. However, the company has cash and equivalents of ~Rs. 21 crore as on September 22, 2023 (including debt service reserve account (DSRA) of ~Rs. 7 crore) and undrawn limits of Rs. 25 crore, which supports its liquidity profile. ICRA notes that the SCOD[3] of the fifth block has been shifted to Q3FY2025 (extending from Q1FY2024, which in-turn was revised from Q2FY2022) owing to reasons including changes in design specifications by the tenant, increase in leasable area, and Covid-19 pandemic-related disruptions. Completion of the acquisition and operationalisation of the under-construction warehouse, within the budgeted time and cost, subsequent achievement of its full rental potential, will be critical for an improvement in the DSCR.

HWPL's overall scale of operations remains moderate, being limited to a single asset (with four operational warehouses) in Bhiwandi, Maharashtra thereby exposing the entity to fluctuations in a single asset/market's performance. Additionally, the rating continues to be constrained by HWPL's tenant concentration risk with the warehouses (operational as well as under construction) leased to two tenants. However, this risk is mitigated to an extent by the strong tenant profile comprising reputed e-retailer companies. Nonetheless, any significant delay in completion and rental commencement for the fifth warehouse would remain a key rating sensitivity.

ICRA notes the favourable location of the assets at Bhiwandi (Maharashtra) with competitive rentals. The long tenure of the leases, extending over 20–25 years, together with significant outlays by these tenants in these warehouses, reduces the vacancy risk. Strategic location of these warehouses (from lessee's supply chain standpoint) further supports the tenant stickiness. HWPL is a part of the Xander Group's platform (Xander is a Singapore-based private equity group), which has a track record of around two decades in India. The Group has presence across commercial, retail and industrial segments of the real estate sector. Additionally, structural features on the debt availed for the project, including a DSRA and an escrow structure, provide comfort. ICRA notes that the sponsor's funds, in the form of compulsorily convertible debentures (CCDs), will remain subordinated to the senior debt, and do not have any default calling rights.

[1]NOI: Net operating income, defined as lease rental income and maintenance income less maintenance, property tax, insurance and any other direct expenses associated with the property

[2]DSCR: Debt Service Coverage Ratio, defined as cash flows available for debt servicing divided by the debt repayment obligations.

[3]SCOD: Scheduled Commercial Operation Date

Key rating drivers and their description

Credit strengths

Favourable location with competitive rental rates of the asset – The asset is spread 1.24 million square feet (msf) of leasable area (including 0.30 msf under-construction space). The property is favourably located in Bhiwandi and offer competitive rental rates. Four of the operational warehouses are spread over 0.95 msf and have been fully leased out to two leading e-retailer companies. The remaining one warehouse, though under-construction at present, is 100% pre-leased to a reputed e-retailer company.

Strong tenant profile – The tenant profile continues to remain strong, which moderates the counterparty risks. Further, the long tenure of the leases, extending over 20–25 years, together with significant outlays by these tenants in these warehouses, reduces the vacancy risk. Strategic location of these warehouses (from lessee's supply chain standpoint) further supports the tenant stickiness.

Sponsored by Xander Group, which has an established track record of acquiring, developing, and leasing assets – HWPL is part of The Xander Group's platform (a Singapore-based private equity group), which has an established track record of around two decades of acquiring, developing and operating assets in India. The Group has a strong team with capabilities across the real estate investment value curve including acquisition, development, asset management, leasing and operations.

Credit challenges

Delay in commencement of the fifth warehouse and ballooning repayments led to weak coverage metrics – Delay in rent commencement of one of the warehousing blocks led to lower-than-expected revenue and NOI. Lower NOI along with ballooning repayment obligations amidst increase in repo-linked rate of interest led to weakening of debt coverage metrics with DSCR falling below 1 time for FY2024. Moreover, the increase in interest rates in the recent quarters resulted in lower-than-envisaged DSCR. The operating profitability during FY2023 also declined due to certain one-time expenses towards legal and professional fees. However, the company has cash and equivalents of ~Rs. 21 crore as on September 22, 2023 (including debt service reserve account (DSRA) of ~Rs. 7 crore) and undrawn limits of Rs. 25 crore, which supports its liquidity profile. Completion of the acquisition and operationalisation of the under-construction warehouse, within the budgeted time and cost, subsequent achievement of its full rental potential, will be critical for an improvement in the DSCR.

Moderate scale of operations and high tenant concentration risk – HWPL's scale of operations is moderate and is limited to a single asset in Bhiwandi. This exposes the entity to fluctuations in a single asset/market's performance. ICRA notes that the company faces high tenant concentration risk with the entire area (operational as well as under construction) leased to two tenants. However, this risk is mitigated to an extent by the strong tenant profile comprising reputed e-retailer companies.

Execution risks remains for under-construction warehouse – While one warehouse was operational and was acquired in December 2019, two warehouses were acquired in November 2020 and one warehouse in April 2021. The fifth one is under-construction at present. ICRA notes that the SCOD of the fifth block has been shifted to Q3FY2025 (extending from Q1FY2024, which in-turn was revised from Q2FY2022) owing to reasons including changes in design specifications by the tenant, increase in leasable area, and Covid-19 pandemic-related disruptions.

Liquidity position: Adequate

As on Sept 22, 2023, HWPL has cash and bank balance of ~Rs. 21 crore (including DSRA of ~Rs 7 crore) along with undrawn sanctioned limits of Rs. 25 crore. While the DSCR is estimated to be less than 1 in FY2024; the debt servicing obligation can be comfortably met through existing on balance sheet liquidity.

Rating sensitivities

Positive factors – Given the Negative outlook, a rating upgrade looks unlikely in the near term. However, commencement of rentals from the fifth warehouse thereby resulting in significant improvement in the company's debt coverage metrics will be considered favourably for revising the outlook to Stable.

Negative factors – Negative pressure on HWPL's rating could arise if there is a delay in rental commencement for the fifth warehouse or significant increase in indebtedness for the existing operational warehouses, which results in deterioration in the debt protection metrics or liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Lease Rental Discounting (LRD)
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the company's standalone financial statements

About the company

Hecate Warehousing Private Limited (HWPL) is a special purpose vehicle (SPV), which is part of The Xander Group (a Singapore-based private equity group). HWPL has been incorporated with the purpose of acquiring five pre-leased warehouses spread around ~1.3 msf area and 26.67 acres of land. The warehouses are located in the 269-acre industrial park in Bhiwandi, Maharashtra. While one warehouse was operational and was acquired in December 2019, two warehouses were acquired in November 2020 and one warehouse in April 2021; the fifth one is under-construction at present.

Key financial indicators (audited)

HWPL – Standalone	FY2022	FY2023*
Operating income	38.2	39.3
PAT	14.4	10.1
OPBDIT/OI	96.3%	93.5%
PAT/OI	37.7%	25.7%
Total outside liabilities/Tangible net worth (times)	7.5	6.1
Total debt/OPBDIT (times)	7.0	7.2
Interest coverage (times)	1.8	1.6

*Source: Company, ICRA Research; *Provisional; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; The above financial numbers and ratios reflect analytical adjustments made by ICRA and may not be comparable with HWPL's reported financials*

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 of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					October 09, 2023	October 31, 2022	July 15, 2021	June 25, 2021	November 02, 2020
1	**Term loan**	Long Term	194.3	179.6	**[ICRA]A- (Negative)**	**[ICRA]A (Negative)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term 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 I**	Oct-2019	-	Aug-2033	44.5	[ICRA]A- (Negative)
NA	**Term loan II**	Feb-2020	-	Jan-2033	142.3	[ICRA]A- (Negative)
NA	**Term loan III**	Nov-2020	-	Mar-2033	7.5	[ICRA]A- (Negative)

Source: Company

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

Corrigendum

References to third party contractor in the rationale dated October 09, 2023 have been removed on page 1.

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