October 30, 2023

TVS Industrial & Logistics Parks Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	463.00	463.00	[ICRA]A+ (Stable); reaffirmed
Long-term fund-based facilities	45.00	45.00	[ICRA]A+ (Stable); reaffirmed
Total	**508.00**	**508.00**	

**Instrument details are provided in Annexure-I*

Rationale

While assigning the rating, ICRA has taken a consolidated view of TVS Industrial & Logistics Parks Private Limited (TVSILP) and 11 special purpose vehicles (SPVs), which are fully owned by TVSILP. There exists financial and management linkages among the various entities through TVSILP. The excess funds available at the SPVs are transferred to TVSILP, which in turn infuses the funds into various subsidiaries to meet their funding requirements.

The rating reaffirmation takes into account the healthy scale and geographical diversification of TVSILP's warehousing operations with presence across 9 locations in five states, and the healthy occupancy levels, which has supported steady rental generation. As on September 30, 2023, TVSILP, on a consolidated basis, had an operational warehousing capacity of 7.4 million square feet (msf) (5.1 msf as of March 2022) with robust occupancy at 100%. The rating factors in TVSILP's extensive experience, its established position in warehouse/logistics parks construction and leasing, the favourable location of its parks and the reputed client profile. Further, most of its tenants are renowned and established companies, thus mitigating the credit risks associated with default in contractual obligations or vacancies leading from closure/shrinkage of client business.

The leverage is high with estimated Debt to NOI of 8.4-8.6 times (Net Debt to NOI of 7.8 - 8.0 times) as on March 31, 2024 and the debt coverage metrics are moderate, with 5-year average DSCR at 1.20-1.22 times during FY2024-FY2028. Post commencement of rentals from under-construction assets and with no additional debt on these assets, the leverage is expected to improve to around 6 times as on March 31, 2025 and 5-year average DSCR to above 1.25 times during FY2025-FY2029. The group doesn't have any construction finance loans and plans to fund the new warehouse development primarily through lease rental discounting (LRD) loans which are backed by rentals against the leased area from operating assets. Additionally, the company maintains an escrow mechanism and a DSRA (equivalent to three months of debt servicing obligations) for majority of LRD loans. The debt coverage metrics remain vulnerable to any changes in interest rates. However, its weighted average interest rate (at the consolidated level) stands low at 7.9%. Around 76% of its total outstanding external debt as of September 2023 has an interest rate, which is fixed for another 27-56 months, thus protecting the company from interest rate variations to an extent. The rating continues to draw comfort from TVSILP's strong parentage, with, as of 30th September 2023, ~25.2% stake held by the TVS Mobility Group (on a fully diluted basis post conversion of the British International Investment's (BII) (erstwhile CDC Group) investment into equity (BII to hold approximately 37.6% stake in TVSILP) and the associated financial and operational flexibility.

The rating is, however, constrained by exposure to execution risk for the under-construction area of 0.95 msf and planned area of around 1.0 msf, with estimated completion by March 2025. Although the company has healthy pre-leasing for around 0.6 msf of under-construction area, it is exposed to market risk for the balance under-construction and planned area. Nonetheless, the company's policy of proceeding with warehouse construction only after confirmation from its anchor customer mitigates the market risk to a large extent. TVSILP's ability to timely operationalise these projects at adequate rental rates is critical for improving its leverage and coverage metrics. The ratings remain sensitive to any further large debt-funded expansion/acquisitions, adversely impacting its credit profile. TVSILP is exposed to tenant concentration risk with top five tenants occupying ~69% of the total leased area as of September 2023. Further, the weighted average lease expiry (WALE) for the current leased area of 7.4 msf is 6.4 years compared to the remaining debt maturity of around 14 years, thereby exposing it to lease renewal risk. However, the healthy occupancy on a sustained basis, the reputed tenant profile and assets being used by majority of tenants for strategic purpose mitigate the tenant concentration and lease renewal risks to an extent.

The Stable outlook reflects ICRA's expectations that TVSILP will be able to generate stable cash flows from a well-diversified pool of warehouses, maintain robust occupancy levels from reputed tenants across its operational warehouses with adequate coverage metrics.

Key rating drivers and their description

Credit strengths

Strong parentage with financial and operational flexibility as part of Group – Established in 1911, the TVS Mobility Group, is an automotive conglomerate, comprising companies involved in providing premium automobile solutions, serving as a total resource for independent service centres, dealerships, fleets and aftermarket, among others. TVSILP is a 50:50 joint venture (JV) between TVSSCS, the Group's logistics arm, and Ravikumar Swaminathan & Associates. As of September 30, 2023, post funds infusion from BII (erstwhile CDC Group), on a fully diluted basis, TVSSCS and Ravikumar Swaminathan & Associates hold 25.2% and 29.6% stake, respectively, while BII will hold ~37.6%. However, the management control continues with the existing shareholders, i.e., prior to funds infusion by BII. Being a part of the TVS Mobility Group, TVSILP enjoys an established and reputed brand name, along with significant financial and operational flexibility.

Healthy scale of operations and asset diversification while maintaining high occupancy – As on September 30, 2023, TVSILP, on a consolidated basis, had an operational warehousing capacity of 7.4 msf (5.1 msf as of March 2022) with robust occupancy at 100%. TVSILP has a diversified geographical presence with its operational warehousing assets spread across 9 different locations in 5 states. The company is looking to expand in the existing locations and start operations at new locations through its under-construction and planned capacities.

Adequate financial risk profile – The leverage is high with estimated Debt to NOI of 8.4-8.6 times (Net Debt to NOI of 7.8 - 8.0 times) as on March 31, 2024 and debt coverage metrics are moderate, with 5-year average DSCR at 1.20-1.22 times during FY2024-FY2028. Post commencement of rentals from under-construction assets and with no additional debt on these assets, the leverage is expected to improve to around 6 times as on March 31,2025 and 5-year average DSCR to above 1.25 times during FY2025-FY2029. The group doesn't have any construction finance loans and plans to fund the new warehouse development primarily through lease rental discounting (LRD) loans which are backed by rentals against the leased area from operating assets. Additionally, the company maintains an escrow mechanism and a DSRA (equivalent to three months of debt servicing obligations) for majority of LRD loans. The debt coverage metrics remain vulnerable to any changes in interest rates. However, the weighted average interest rate at a consolidated level stands low at 7.9%. Around 76% of its total outstanding external debt as of September 2023 has an interest rate, which is fixed for another 27-56 months, protecting the company from interest rate variations to an extent.

Credit challenges

Project execution risk with plans to set up additional space over the medium term – TVSILP is exposed to execution risk for the under-construction area of 0.95 msf and planned area of around 1.0 msf, with estimated completion by March 2025. Although the company has healthy pre-leasing of around 0.6 msf for the under-construction assets of 0.95 msf, it is exposed to market risk for the balance under-construction area and planned assets. However, its policy of proceeding with warehouse construction only after confirmation from its anchor customer mitigates the market risk to a large extent. TVSILP's ability to timely operationalise these projects, at adequate rental rates, is critical for improving its leverage and coverage metrics.

Exposed to tenant concentration risk and lease renewal risks – TVSILP is exposed to tenant concentration risk with top five tenants occupying ~69% of total leased area as of September 2023. Further, the WALE for the current leased area of 7.4 msf is 6.4 years compared to the remaining debt maturity of around 14 years, thereby exposing it to lease renewal risk. However, the healthy occupancy on a sustained basis, the reputed tenant profile and assets being used by majority of tenants for strategic purpose mitigate the tenant concentration and lease renewal risks to an extent.

Liquidity position: Adequate

The company's consolidated liquidity position is adequate. As on June 30, 2023, TVSILP had an unencumbered cash balance of Rs. 209.3 crore, undrawn sanctioned debt of ~Rs. 30 crore, which along with the expected security deposits of around Rs. 27 crore and internal accruals are likely to be sufficient to meet the pending cost of Rs. 337.3 crore for its under-construction and planned assets as of June 2023. The cash flow from operations from the existing leases is sufficient for the scheduled LRD repayment obligations.

Rating sensitivities

Positive factors – ICRA could upgrade the rating in case of a significant reduction in indebtedness resulting in Debt/NOI of less than 5.5 times on a sustained basis.
Negative factors – The rating may be downgraded in case of a rise in vacancy levels or/and significant increase in indebtedness leading to weakening of the financial risk profile. Specific credit metric for a rating downgrade would be five-year DSCR of less than 1.25 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology- Lease Rental Discounting
Parent/Group support	Not Applicable
Consolidation/Standalone	While assigning the rating, ICRA has taken a consolidated view of TVS Industrial & Logistics Parks Private Limited (TVSILP) and 11 SPVs, which are fully owned by TVSILP. There exists financial and management linkages among the various entities through TVSILP. The excess funds available at the SPVs are transferred to TVSILP, which in turn infuses the funds in various subsidiaries for funding requirements. ICRA has considered the consolidated financials of TVSILP. As on September 30, 2023, the company had 11 SPVs, that are enlisted in Annexure II.

About the company

TVS Industrial & Logistics Parks Private Limited, a part of the TVS Mobility Group, was set up in 2005 to support the Group's supply chain management by providing core industrial infrastructure for manufacturing, distribution and sales. TVSILP is a 50:50 JV between TVSSCS, the logistics arm of the Group, and Ravikumar Swaminathan & Associates. However, with funds infusion of Rs. 250 crore from BII, on a fully-diluted basis, as of September 30, 2023, TVSILP will hold ~25% stake, while 30% will be held by Ravikumar Swaminathan & Associates and 37.6% by BII. The remaining stake will be held by individuals and investment management company. TVSILP creates industrial infrastructure facilities such as industrial and warehouse buildings, and logistics infrastructure parks. From a public limited company, it was converted into a private limited company in December 2015, and the name was changed to TVSILP in FY2018.

Key financial indicators (audited)

TVSILP (Consolidated)	FY2022	FY2023
Operating income	102.4	143.9
PAT	7.2	15.4
OPBDIT/OI	82.5%	74.2%
PAT/OI	7.0%	10.7%
Total outside liabilities/Tangible net worth (times)	2.7	3.3
Total debt/OPBDIT (times)	8.8	9.5
Interest coverage (times)	1.7	1.8

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

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 Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 30, 2023	Jul 13, 2022	Apr 14, 2021	Sep 25, 2020
1	**Term loans**	Long-term	463.0	463.0	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Negative)**
2	**Fund-based limits**	Long-term	45.0	15.7	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Negative)**
3	**Fund-based limits**	Short-term	-	-	-	**[ICRA]A1; Withdrawn**	**[ICRA]A1**	**[ICRA]A2+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Long-term fund-based facilities	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-1	August 2021	NA	December 2037	220.0	[ICRA]A+ (Stable)
NA	Term loan-2	November 2021	NA	December 2037	185.0	[ICRA]A+ (Stable)
NA	Term loan-3	June 2023	NA	May 2041	58.0	[ICRA]A+ (Stable)
NA	Cash credit/ Overdraft facility	NA	NA	NA	45.0	[ICRA]A+ (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

Company Name	Ownership*	Consolidation Approach
Jagannath Logistics & Industrial Parks Private Limited	100.0%	Full Consolidation
Maragathammbal Industrial and Logistics Park Private Limited	100.0%	Full Consolidation
Marudhamalai Industrial & Logistics Parks Private Limited	100.0%	Full Consolidation
Siruvapuri Murugan Industrial and Logistics Private Limited	100.0%	Full Consolidation
Jaibalaji Industrial and Logistics Parks Private Limited	100.0%	Full Consolidation
Sri Meenatchi Industrial and Logistics Park Private Limited	100.0%	Full Consolidation
Tarkeshwar Industrial and Logistics Parks Private Limited	100.0%	Full Consolidation
TVS Infrastructure Investment Manager Private Limited (formerly Mahaveer Industrial and Logistics Parks Private Limited)	100.0%	Full Consolidation
Durgeshwari Industrial and Logistics Parks Private Limited	100.0%	Full Consolidation
Revanza Sullurpet Industrial Parks Private Limited	100.0%	Full Consolidation
Ramanujam Industrial and Logistics Parks Private Limited	100.0%	Full Consolidation

**As on September 30, 2023, Source: Company data*

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About ICRA Limited:

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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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