

October 30, 2023

IndoSpace AS Industrial Park Private Limited: Rating withdrawn for bank facilities and provisional rating assigned for NCD

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action**
Long-term Fund-based – Term loan	236.26	236.26	[ICRA]AAA (Stable); withdrawn
Non-convertible debenture (NCD)	-	197.87	Provisional [ICRA]AAA (Stable); assigned
Total	236.26	434.13	

*Instrument details are provided in Annexure-I

** The rating assigned to NCDs is provisional as of now and is subject to the fulfilment and review of all pending actions/ documentation. The final rating may differ from the provisional rating in case the completed actions/ documentation is not in line with ICRA's expectations.

Rating in the absence of pending actions/documents	[ICRA]A+ (Stable)
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Rationale

IndoSpace AS Industrial Park Private Limited ("the company"), is a step-down subsidiary of IndoSpace Logistics Parks Core Pte. Ltd. (IndoSpace Core), which is a joint venture (JV) between Canada Pension Plan Investment Board (CPPIB -93%), Everstone-backed real estate developer and warehousing and logistics specialist IndoSpace (2%), and global investment fund manager GLP (5%). The existing term loans of the special purpose vehicles (SPVs, including that of the company) are to be refinanced by the proposed non-convertible debentures (NCDs). The restricted group would comprise 22 SPVs, wherein NCD issuance will be done by 21 SPVs (borrowers), while the remaining SPV will not have any external debt. All the 22 SPVs have a surplus sharing arrangement with the flexibility to extend the surpluses to any other SPV, which could be utilised for debt servicing of the other SPVs, should a need arise. The current portfolio of IndoSpace Core has 17 completed industrial and logistic parks (housed under 22 SPVs) with a leasable area of 14.0 million square feet (msf) as on July 31, 2023 (11.8 msf as on July 31, 2022). The SPVs are fully owned by the same ultimate holding company, IndoSpace Logistics Parks Core Pte Ltd.

The surplus available with any restricted group issuer after meeting their operations and maintenance (O&M) costs and debt servicing will be made available to the other restricted group issuers for meeting shortfall, if any, as per the debt structure. The escrow accounts of the constituent restricted group issuers are monitored by the debenture trustee. The debenture trustee shall examine (with the cooperation of the account bank), 5 business days before any due date, the balances lying in the respective accounts of each restricted group issuer. In case of a shortfall in debt servicing of any restricted group issuer(s) and surplus available in the accounts of any other restricted group issuer(s), the debenture trustee will have the right to require the account bank to transfer all or any part of the surplus available with any restricted group issuer(s) to meet the shortfall in debt servicing of any other restricted group issuers, pro rata across issuances where there is any shortfall. Further, there exists cross default clause and cross-collateralisation across the SPVs for the proposed NCDs.

The provisional rating assigned to the proposed NCDs of the company factors in IndoSpace Network's proven track record in the industrial and logistics parks segment, Indospace Core's robust business profile, supported by the strategically diversified portfolio of completed Grade-A industrial and logistics parks, strong occupancy levels and diversified tenant mix for the pooled assets. The pooled assets has a leasable area of 14.0 msf (increased from 11.8 msf after acquisition of 4 new assets in the current year), spread across Bengaluru, Chennai, Hyderabad, NCR and Pune. The occupancy and collections have largely remained resilient, led by healthy demand from third-party logistics (3PL), e-commerce and automotive segments. The

committed occupancy for the portfolio stood at 98% as on July 31, 2023 (99% as on July 31, 2022) and the top 10 tenants accounted for 44% of the gross rentals. The pooled assets reported 14% growth in net operating income (NOI) in FY2023 to Rs. 347.6 crore, aided by increase in rental rates and realisation of scheduled escalations as per the rental agreement. ICRA estimates the NOI to grow further by 12% in FY2024, driven by 19% increase in leasable area from the 4 newly acquired assets and sustenance of strong occupancy levels.

The rating further draws comfort from the robust financial risk profile of IndoSpace Core, supported by its strong liquidity and low leverage with a loan to asset value (LTV) of 15% as on July 31, 2023 and expected Net Debt/NOI of around 1.8 times as of March 2024 for the current pooled assets. The consolidated debt outstanding for the pooled assets for 22 SPVs as on July 31, 2023 was Rs. 1,053.03 crore (comprising external debt of Rs. 859.2 crore and compulsorily convertible debentures¹ of Rs. 193.9 crore). The rating is supported by the presence of strong sponsors, CPPIB and GLP Global, which provides exceptional financial flexibility to the portfolio. ICRA is given to understand that the sponsors are willing to provide required support, should a need arise. IndoSpace Core has a policy of acquiring only stable rent-yielding assets.

The rating, however, continues to remain exposed to risks related to variation in interest rates and vulnerability of the portfolio to lease expiry and market risks. ICRA notes that the projected debt coverage metrics for the current pool of 17 assets are expected to remain comfortable with 5-year average DSCR of above 2.5 times during FY2024 to FY2028, given the limited debt repayments (5% per annum of NCD amount) during this period for the proposed NCDs. However, the pooled assets face refinancing risk for the balance 80% of NCD amount, which has a bullet repayment at the end of its 5-years tenor in FY2029. The refinancing risk is mitigated to a large extent by the exceptional financial flexibility available to IndoSpace Core on account of the low leverage and its strong promoter profile. The pooled assets face vacancy risk with around 34% of the total area due for renewal in FY2024 and FY2025. However, this risk is mitigated to an extent with IndoSpace Network's established relationship with reputed tenants and its demonstrated track record of renewal/addition of leases.

ICRA notes that the IndoSpace Core platform is planning to acquire 5 additional operational assets with a leasable area of 3.1 msf over the next 6 months. While this acquisition is expected to result in an increase in the overall indebtedness of the IndoSpace Core portfolio by ~Rs. 1,200 crore, ICRA expects the leverage and coverage metrics of the portfolio to remain comfortable post the acquisition with estimated net debt/NOI of 3.5 times as on March 31, 2025 and 5-year average DSCR of 1.5-1.6 times during FY2025 to FY2029. Any higher-than-anticipated increase in debt impacting the leverage and coverage indicators would be a key monitorable.

The rating factors in the favourable location of the IndoSpace AS Industrial Park Private Limited which is operating four logistics and Industrial parks named Chakan-II (with total leasable area of 9.79 lakh sq. ft located in Chakan, Pune), Polivakkam (with total leasable area of 9.87 lakh sq. ft. located in Chennai), Puduvoiyal (with total leasable area of 3.01 lakh sq. ft. located in Chennai) and Vallam (with total leasable area of 8.41 lakh sq. ft. located in Chennai). All these assets are well connected with key industrial markets.

The committed occupancy is 97% as of July 2023 (compared to 100% as of July 2022). The asset is exposed to lease renewal risk with around 18% and 20% of the leased area due for renewal in FY2024 and FY2025, respectively. The strong tenant profile of the occupants also provides comfort. The company's coverage and leverage are expected to be comfortable.

The Stable outlook on the provisional [ICRA]AAA rating reflects ICRA's opinion that given the well-diversified nature of IndoSpace Core's pooled assets, it will remain protected from any large reduction in occupancy or rental collections over the medium term. The strong sponsors and low leverage provide exceptional financial flexibility.

¹ CCDs are expected be subordinated to the NCDs. Interest pay-outs on CCDs are permissible subject to debenture holder/lenders approval, post meeting the debt servicing obligations on the NCDs and no Event of Default subsisting.

The rating assigned to the bank facilities of IndoSpace AS Industrial Park Private Limited has been withdrawn at the request of the company, based on the No Dues Certificate (NDC) received from the banker and in accordance with ICRA's policy on withdrawal of credit rating.

Key rating drivers and their description

Credit strengths

Well-diversified portfolio with reputed tenant profile – The current pooled asset portfolio of IndoSpace Core has 17 completed industrial and logistic parks (housed under 22 SPVs), which includes completed area of 14.0 msf as on July 31, 2023 (11.8 msf as on July 31, 2022). The completed area reported healthy committed occupancy of 98% as on July 31, 2023 (99% as on July 31, 2022). The pooled assets are spread across five key markets of India – Bengaluru, Chennai, Hyderabad, NCR and Pune and have a diversified as well as reputed tenant mix with top 10 tenants contributing to 44% of the gross rentals as on July 31, 2023.

The projects are located in Pune and Chennai. All these assets are well connected with key industrial markets.

Strong financial risk profile – The company's coverage and leverage are expected to be comfortable. The consolidated debt outstanding at the pooled asset level for 22 SPVs as on July 31, 2023, was Rs. 1,053.03 crore (comprising external debt of Rs. 859.2 crore and compulsory convertible debenture of Rs. 193.9 crore). The external debt translates into a low LTV of 15% as on July 31, 2023, and the estimated leverage is comfortable with net debt/NOI of 1.8 times as of March 2024 for the pooled assets. The presence of DSRA equivalent to three months' debt obligations and escrow mechanism prioritising debt servicing provide comfort against any short-term liquidity mismatch. Additionally, cash flow fungibility across the assets, due to the cross-collateralised structure, lends strength to the financial risk profile.

Credit profile supported by conservative leverage policy and surplus sharing arrangement within the restricted group – The credit profile of the pooled assets is expected to be supported by the management's conservative leverage policy. The proposed debt-funded acquisition of five assets with a leasable area of 3.1 msf is likely to increase the overall indebtedness of the pooled assets by Rs. 1,200 crore over the next 6 months. However, ICRA expects the leverage and coverage metrics of the pooled assets to remain comfortable post the acquisition. The leverage is estimated to be 3.5 times as on March 31, 2025, with 5-year average DSCR of 1.5-1.6 times during FY2025 to FY2029. Additionally, all the 22 SPVs have a surplus sharing arrangement with the flexibility to extend the surpluses to any other SPV, which could be utilised for debt servicing of the other SPVs, should a need arise. Any higher-than-anticipated increase in debt impacting the leverage and coverage indicators would be a key monitorable.

Leadership position and established track record of sponsors – The IndoSpace Network is one of India's leading developers of industrial and warehousing parks. It develops industrial and logistics parks for leading players across various sectors including automobiles, e-commerce, FMCG, third-party logistics and manufacturing among others. At present, the Group has 41 Grade-A parks spread across the country. Overall, the Network has an established track record of operating industrial and logistics parks in India, and its status as the investment manager for IndoSpace Core supports the business risk profile of the pooled asset. Strong financial profile of the sponsors, Canada Pension Plan Investment Board (CPPIB) and GLP Global provides financial flexibility to the pooled assets.

Credit challenges

Large bullet in FY2029 exposes the structure to refinancing risks – The proposed debt structure has a door-to-door tenure of five years, wherein 80% of the debt has to be paid as bullet repayment in FY2029. This debt structure exposes the company and the other SPVs in the pooled assets to refinancing risk. The strong sponsors and low leverage provide exceptional financial flexibility, thereby mitigating the risk to a large extent.

Exposure to interest rate risk – The company and the pooled assets remain exposed to interest rate risk on the proposed NCDs to be availed for each of the projects. Nonetheless, ICRA notes that the projected debt coverage metrics are expected to remain robust.

Vulnerability to lease expiry risks – For the project under the company, around 18% and 20% of the leased area is due for renewal in FY2024 and FY2025 respectively. Overall, at the pooled assets level, over 34% of the area is due for renewal in FY2024 and FY2025, which exposes it to vacancy risks. In FY2023, majority of the escalations have been realised as per the contract terms and a predominant number of the leases due for renewal in FY2023 have been either renewed or replaced. The vacancy risk is mitigated to an extent by the IndoSpace Network's strong relationship with tenants and demonstrated track record of renewal/addition of leases in the past.

Liquidity position: Strong

The company's debt obligations (principal and interest) for FY2024 are estimated at Rs. 32.1 crore (including interest on CCDs), which are expected to be serviced comfortably by its operational cash flows. Further, its liquidity is supported by the debt structure wherein each SPV has access to extend the surpluses of other SPVs under IndoSpace Core. At the pooled assets level, the average monthly principal and interest obligations in FY2024 are projected at Rs. 12 crore (including interest on CCDs), while the average monthly net operating income is likely to be around Rs. 35 crore. As on July 31, 2023, the pooled assets had a free cash and bank balance of Rs. 297.4 crore and DSRA of Rs. 41.6 crore.

Rating sensitivities

Positive factors – Not Applicable

Negative factors – Any material decline in occupancy or rentals, and/or non-adherence to the debt structure adversely affecting the company's credit metrics could exert pressure on the rating. Any large debt-funded acquisition, which increases the indebtedness leading to Net Debt²/NOI to above 3.5 times, on sustained basis, at the pooled assets level could also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals ICRA's policy on assigning provisional ratings Policy on withdrawal of credit ratings
Parent/Group support	<p>Parent: IndoSpace Core</p> <p>The restricted group would comprise 22 SPVs, wherein NCD issuance will be done by 21 SPVs (borrowers) while the remaining SPV will not have any external debt.</p> <p>IndoSpace Core comprises 22 SPVs housed under IndoSpace Logistics Parks Core Pte. Ltd. which operate under a common management, have business linkages and cash flow fungibility. All the 22 SPVs have a common lender and the debt availed by them have a cash flow pooling mechanism, contractual surplus arrangement with presence of cross default clauses.</p>
Consolidation/Standalone	Standalone

² ICRA has provided some equity credit to the CCDs

Pending actions/documents required to be completed for conversion of provisional rating into final

The assigned provisional rating for NCD of Rs. 197.87 crore is provisional and would be converted into final upon:

1. Finalisation of term sheet of the NCDs with the proposed lender
2. Execution of transaction documents which includes debenture trust deed, escrow agreements, etc.

Validity of the provisional rating

In case the debt instrument/borrowing facility for which a provisional rating has been assigned is subsequently issued, the provisional rating would have to be converted into a final rating within 90 days (validity period) from the date of issuance of the debt instrument. If considered appropriate, the validity period may be extended further by 90 days for converting the provisional rating into final, in circumstances where the rated entity expressly indicates its intention to complete the pending actions/documents over the near term. Under no circumstances shall the validity period be extended beyond 180 days from the date of issuance. For further details, refer to ICRA's Policy on Provisional Ratings available at www.icra.in. If neither the pending actions/documents nor the issuance is completed after one year of the assignment of the provisional rating, ICRA would withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings available at www.icra.in.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed by the entity within 90 days (validity period) from the date of issuance, the provisional rating will be converted into final upon the review of the required actions/documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in absence of the pending actions/documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at www.icra.in.

About the company

Incorporated in 2010, IndoSpace AS Industrial Park Private Limited is a wholly owned step-down subsidiary of IndoSpace Logistics Parks Core Pte. Ltd. The company operates logistics and Industrial parks named Chakan-II (with total leasable area of 9.64 lakh sq. ft., and committed occupancy of 91% as on July 31, 2023, located in Chakan, Pune), Polivakkam (with total leasable area of 9.79 lakh sq. ft., and committed occupancy of 100% as on July 31, 2023, located in Chennai), Puduvoiyal (with total leasable area of 3.01 lakh sq. ft., and committed occupancy of 100% as on July 31, 2023 located in Chennai) and Vallam (with total leasable area of 8.38 lakh sq. ft., and committed occupancy of 100% as on July 31, 2023, located in Chennai).

IndoSpace Logistics Parks Core Pte. Ltd. (IndoSpace Core) is a JV between Everstone-backed real estate developer and warehousing and logistics specialist IndoSpace (2% stake), Canada Pension Plan and Investment Board (CPPIB – 93% stake) and global investment fund manager GLP (5% stake). The current asset portfolio of IndoSpace Core has 17 completed industrial and logistic parks (housed under 22 SPVs) with a leasable area of 14.0 msf. The completed area enjoys healthy committed occupancy of 98% as on July 31, 2023. The pooled assets are spread across five key markets of India – Bengaluru, Chennai, Hyderabad, NCR and Pune.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	84.8	92.4
PAT	11.7	17.7
OPBDIT/OI	83.3%	83.4%
PAT/OI	13.8%	19.1%
Total outside liabilities/Tangible net worth (times)	1.0	1.0
Total debt/OPBDIT (times)	3.7	3.2
Interest coverage (times)	2.9	3.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 Oct 05, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 30, 2023	Dec 07, 2022	Oct 05, 2021	Aug 24, 2020
1	Term loans	Long-term	236.26	Nil	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	NCD*	Long-term	197.87	-	Provisional [ICRA]AAA (Stable)	-	-	-

*Proposed NCDs are yet to issued

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Non-convertible debenture	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](https://www.icra.in)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Apr-2020	-	Sep-23	236.26	[ICRA]AAA (Stable); withdrawn
NA	NCD*	NA	NA	NA	197.87	Provisional [ICRA]AAA (Stable)

Source: Company *yet to be placed

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

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