

January 30, 2024

Karanje Emerald Logistics Park Private Limited: [ICRA]A- (Stable)/[ICRA]A2+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loans	175.75	[ICRA]A- (Stable); Assigned
Short-term – Non-fund based – Letter of credit [^]	(100.00)	[ICRA]A2+; Assigned
Total	175.75	

*Instrument details are provided in Annexure-I; [^] Sublimit of Term loans

Rationale

The assigned ratings factor in Karanje Emerald Logistics Park Private Limited's (KELPPL) strong promoter group, the CapitaLand Group, a Temasek Holdings (Private) Limited linked entity¹, which has an established execution track record in industrial warehousing and office leasing segment in India. Further, strong promoter profile lends exceptional financial flexibility to the company. KELPPL is developing a warehousing park at Karanja Vihire village in Khed Taluka, Dist. Pune, with a total leasable area of 0.90 million square feet (msf), spread across four units. The ratings favourably notes the low market risk for the project with pre-leasing at 95% of the total leasable area with a reputed supply chain company. The rating considers the favourable location of the warehousing park in the Talegaon cluster and good connectivity to Pune and other adjacent industrial and warehousing hubs. The funding risk for the project remains low as the entire debt requirement has been tied up and nearly 57% of the committed equity requirement has already been infused as of December 2023. The project is being funded in a debt to equity mix of 1:1 and the leverage as well as debt coverage metrics are estimated to be adequate. The rated facility has an escrow mechanism in place and requires maintaining a debt service reserve account (DSRA), equivalent to three months of repayment obligation within 1 year from the commencement of operations.

The ratings are, however, constrained by the project's exposure to execution and market risks. The project is at an intermediate stage, having achieved 35% construction progress as of December 2023. Nonetheless, this risk is mitigated by the strong executional track record of the CapitaLand Group. The construction is expected to be completed within the scheduled date of commencement of commercial operations (DCCO) of January 2029 (5 years from the date of first disbursement). The project is likely to be handed over to the lessee as per the timelines agreed in the agreement to lease. The company faces high tenant concentration risk as nearly 95% of the leasable area has been tied-up with a single tenant. Nonetheless, the healthy financial profile of the tenant mitigates the counterparty credit risk to an extent. Further, the company is exposed to high geographical and asset concentration risks inherent in single-project companies.

The Stable outlook reflects ICRA's opinion that the company will benefit from the extensive experience of its promoter group in the warehousing space, which is expected to enable it to complete the project without any material time and cost overruns. Further, the outlook reflects ICRA's expectation that KELPPL will maintain adequate debt protection metrics.

¹Temasek Holding (Private) Limited, which is 100% owned by Government of Singapore through Minister of Finance, has deemed interest of 53% in CapitaLand Investments Limited. CapitaLand Investments Limited is the ultimate holding company of KELPPL.

Key rating drivers and their description

Credit strengths

Strong track record and business profile of sponsors – Karanje Emerald Logistics Park Private Limited is owned by Ascendas India Logistics Fund, sponsored by the CapitaLand Group. CapitaLand Limited is one of the largest diversified real estate groups in Asia, with a presence across more than 260 cities in over 40 countries. It owns and operates a portfolio of diversified real estate assets, including integrated developments, retail, office, lodging, residential, business parks, industrial, logistics and data centres, with a cumulative real estate asset value of about SGD153.8 billion as on December 31, 2022, through CapitaLand Investment (operating real estate investment management business) and CapitaLand Development (managing property development business). CapitaLand Investment manages six listed real estate investment and business trusts and over 30 private funds. In India, the Group has an operational track record of over 25 years. The Group, through Ascendas-Firstspace (A CapitaLand Joint venture) and its various special purpose vehicles, owns and operates a network of warehousing assets across Bengaluru, Chennai, the National Capital Region, Kolkata, Pune, and Mumbai and has developed and leased 7 msf till date.

Favourable project location – The project is located in Karanja Vihire village in Khed Taluka, Dist. Pune. The site is around 2 to 3 km from the Chakan Talegaon Road, around 17 to 18 km from the Pune Mumbai Expressway and around 18 to 20 km from the Pune Nashik Highway. The location is in proximity to Chakan, one of the major industrial hubs for automobiles, engineering, electrical, white goods, and food processing, which has witnessed strong warehousing development.

Low market and funding risks – The market risk for the project is low with pre-leasing tie-up at 95% of the total leasable area with a reputed supply chain company. The project's funding risk is low as the debt requirement has been tied up and nearly 57% of the equity requirement has already been infused as on December 31, 2023. The budgeted project cost of Rs. 351.50 crore is estimated to be funded by a debt-to-equity ratio of 1:1. The leverage and debt coverage metrics are estimated to be adequate. The rated construction finance (CF) facility requires maintaining a DSRA equivalent to three months of repayment obligation within 1 year from the commencement of operations.

Credit challenges

Exposure to project execution risk – The project is at an intermediate stage of execution, with 35% construction progress as of December 2023. It has a total leasable area of 0.9 msf spread over four units, out of which one was under construction as of December 2023. Nevertheless, ICRA expects the construction to be completed within the scheduled timeline without any material time and cost overrun, given the DCCO of January 2029 (5 years from the date of first disbursement), and the extensive experience of the sponsor in the warehousing space and office.

Exposure to tenant concentration risk – The company faces high tenant concentration risk as a single tenant occupies nearly 95% of the leasable area. Any delays in rental payments or renegotiation in the lease agreement with its sole tenant leading to reduction in rentals can adversely impact its cash flow position. Nonetheless, the healthy financial profile of the tenant mitigates the counterparty credit risk to an extent.

Geographical and asset concentration risks – The company is exposed to high geographical and asset concentration risks inherent in single project companies. However, ICRA draws comfort from CapitaLand's diverse portfolio of logistics and industrial parks, including developed and under-development parks, across India.

Liquidity position: Adequate

The company's liquidity position is adequate with Rs. 3.66-crore cash and liquid investments and Rs. 175.75-crore undrawn bank limits as on December 31, 2023. These, along with the balance equity commitment (including any internal accruals) are expected to be adequate to fund the pending project cost of Rs. 228.65 crore.

Rating sensitivities

Positive factors – The rating may be upgraded in case of timely commencement of rentals in full capacity, along with an improvement in leverage and coverage indicators. Specific credit metrics that could result in a rating upgrade would be five-year average DSCR of greater than 1.35 times on a sustained basis.

Negative factors – Cost overruns or any unforeseen delays in completing the project could exert pressure on the company's ratings. Any renegotiation in lease agreement with its sole tenant leading to reduction in rentals and/or increase in indebtedness leading to weakening of the debt protection metrics could also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Karanje Emerald Logistics Park Private Limited is developing a warehousing park on the parcel of land admeasuring about 41.23 acres located at Karanja Vihire village in Khed Taluka, Dist. Pune. The said land parcel will have multiple buildings with a total built-up area of about 0.88 msf and leasable area of 0.90 msf. CIL2 Logistics 2 Pte Ltd, Singapore through Capitaland Group and Temasek owns 99.67% stake and Firstspace Realty LLP owns 0.33% in Karanje Emerald Logistics Park Private Limited.

Key financial indicators: Not applicable for a project company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jan 30, 2024	-	-	-
1 Term loans [^]	Long term	175.75	0	[ICRA]A- (Stable)	-	-	-
2 Letter of credit [*]	Short term	(100.00)	-	[ICRA]A2+	-	-	-

**Sublimit of Term Loans; ^ not yet drawn*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loans	Simple
Short-term – Non-fund based – Letter of credit [^]	Very Simple

[^] Sublimit of Term loans

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 loans [^]	NA	NA	NA	175.75	[ICRA]A- (Stable)
NA	Letter of credit*	NA	NA	NA	(100.00)	[ICRA]A2+

Source: Company; * Sublimit of Term loans; ^ not yet drawn

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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