February 29, 2024

Milecon IT Park 3B Private 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 loans	225.0	225.0	[ICRA]BBB(Stable); upgraded from [ICRA]BBB-(Stable)
Total	**225.0**	**225.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for Milecon IT Park 3B Private Limited (MI3PL) factors in the improvement in the company's committed occupancy to 45% as of December 2023 from 24% as of September 2022, and the healthy leasing pipeline for another 50% of incremental area (3.75 lakh sq ft), providing greater visibility for timely refinancing of the existing construction finance (CF) loans of Rs. 225 crore, which is due for repayment in June 2024. ICRA notes that the company has received sanction of lease rental discounting (LRD) from one of the lenders and is in advanced stages of sanction with its existing CF lender. The rating continues to draw comfort from the experienced promoters of MI3PL having a healthy track record in the development of residential and commercial real estate. MI3PL is a 100% subsidiary of Bhartiya Urban Private Limited (BUPL, rated [ICRA]BBB+ (Stable)). BUPL is undertaking an integrated township project on a land parcel of about 123 acres in North Bengaluru (Thanissandra Road), having a total estimated development potential of about 17million square feet (msf). Phase 3B of the IT park has been developed by MI3PL within the township. ICRA expects BUPL to provide timely financial support to MI3PL (as demonstrated in the past), for funding shortfall, if any, given their high operational, financial, and managerial linkages, its strategic importance for BUPL and the latter's reputation sensitivity to default. BUPL has entered into an agreement with a global sovereign wealth fund, whereby MI3PL will be acquired by the latter once 85% of the area in the property is leased.

The rating remains constrained by the exposure to market risk for the balance 55% of area, which is yet to be leased as of December 2023. With 45% of committed occupancy and the company's plan to avail a top-up loan of Rs. 70 crore (resulting in a peak debt of Rs. 295 crore), the leverage (Debt to NOI) remains high. Given the healthy leasing pipeline and the advanced stages of CF conversion, ICRA in its base case projections has assumed conversion of the CF debt to LRD well within the bullet repayment date (June 2024), along with ramp-up in occupancy, resulting in adequate debt coverage metrics. The company's ability to tie-up leases for the balance area at adequate rates, along with timely commencement of rentals would be critical from the credit perspective. Nonetheless, the Group's strong track record and healthy leasing pipeline are expected to mitigate the risk to an extent. The rating is also constrained by the vulnerability of the debt coverage indicators to fluctuations in interest rates and occupancy levels.

The Stable outlook reflects ICRA's opinion that the company will be able to ramp-up occupancy in the next 12 months, maintain comfortable debt coverage indicators and the company will continue to benefit from the parent's commitment to support in case of any requirement.

Key rating drivers and their description

Credit strengths

Experienced promoters having a strong track record – MI3PL is a 100% subsidiary of Bhartiya Urban Private Limited (BUPL, rated [ICRA]BBB+ (Stable)). BUPL is undertaking an integrated township project on a land parcel of about 123 acres in North Bengaluru (Thanissandra Road), having a total estimated development potential of about 17 msf. Phase 3B of the IT park has been developed by MI3PL within the township. ICRA expects BUPL to provide timely financial support to MI3PL (as demonstrated in the past), for funding shortfall, if any, given their high operational, financial, and managerial linkages, its strategic importance for BUPL and the latter's reputation sensitivity to default. As of September 2023, BUPL had provided unsecured loans of Rs. 60 crore (increased from Rs 53 crore as of March 2023)

Improvement in leasing tie-up providing greater visibility on refinancing, adequate debt coverage indicators – The company's committed occupancy increased to 45% as of December 2023 from 24% as of September 2022. Additionally, there is a healthy leasing pipeline for ~50% incremental area (3.75 lakh sq ft), providing greater visibility for timely refinancing of the existing CF loans of Rs. 225 crore, which is due for repayment in June 2024. It has received sanction of LRD facility from one of the lenders and is in advanced stages of sanction with its existing CF lender. Given the healthy leasing pipeline and the advanced stages of CF conversion, ICRA in its base case projections has assumed conversion of the CF debt to LRD well within the bullet repayment date (June 2024), along with ramp-up in occupancy, resulting in adequate debt coverage metrics**.**

Credit challenges

Exposed to market risk for balance area to be leased – Despite the recent increase, the committed occupancy for the project remains modest at 45% of the total leasable area as of December 2023, exposing the company to market risks. Its ability to tie-up leases for the balance area at adequate rates, along with timely commencement of rentals would be critical from the credit perspective. Nonetheless, the Group's strong track record and healthy leasing pipeline are expected to mitigate the risk to an extent. With 45% of committed occupancy and the company's plan to avail a top-up loan of Rs. 70 crore (resulting in a peak debt of Rs. 295 crore), the leverage (Debt to NOI) remains high.

Vulnerability of debt coverage ratios to changes in interest rate and occupancy levels – The cash inflow is susceptible to volatility in occupancy or rent rates, while the cash outflow is relatively fixed in nature except for any fluctuations in interest rates.

Liquidity position: Adequate

The company had cash and bank balances worth Rs. 1.7 crore as of September 2023 at the standalone level. Its outstanding CF debt of Rs. 225 crore (as of December 2023) is due for repayment in June 2024. The current leasing and healthy leasing pipeline provides adequate visibility for timely refinancing of CF loan by an LRD facility. The parent, BUPL is expected to infuse funds in MI3PL, in case of any shortfall. As of December 2023, BUPL, had free/unencumbered cash balance of Rs. 62.88 crore.

Rating sensitivities

Positive factors – Significant ramp-up in occupancy levels at adequate rates resulting in improvement in debt coverage indicators and debt protection metrics, on a sustained basis, could favourably impact the rating.

Negative factors – Delay in rent commencement/receipt of rentals impacting the liquidity, or any significant increase in indebtedness affecting the company's debt projection metrics could lead to a rating downgrade. The rating could be downgraded in case of a deterioration in the credit profile of the parent company or weakening of linkage with the parent company (BUPL). Specific credit metrics for a rating downgrade could be average five-year DSCR falling below 1.15 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD)
Parent/Group support	Parent/Group Company: Bhartiya Urban Private Limited
Consolidation/Standalone	Standalone

About the company

Incorporated in FY2022, Milecon IT 3B Parks Limited is a 100% subsidiary of BUPL. The entity has been formed so as to acquire Phase 3B of the IT park development from Milestone Buildcon Private Limited, a fellow subsidiary. The occupancy certificate was received in June 2022 for Phase 3B. The total leasable area of the asset is 0.76 msf. As of December 2023, around 45% of the total area has been leased.

Key financial indicators (audited): Not applicable for a project entity

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 Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 29, 2024	Nov 10, 2022	-	-
1	**Term loans**	Long term	225.0	223.8	**[ICRA]BBB(Stable)**	**[ICRA]BBB-(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**	Sep-2019	NA	Jun-2024	225.0	[ICRA]BBB(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 – 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.

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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