

April 24, 2024

Indospace Chittoor II Private Limited: Rating reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|-------------------------------------|--------------------------------------|-------------------------------------|-------------------------------|
| Long-term – Fund-based – Term loans | 36.0 | 36.0 | [ICRA]A- (Stable); reaffirmed |
| Total | 36.0 | 36.0 | |

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in the strong occupancy at 100% of the warehousing park developed by Indospace Chittoor II Private Limited (ICPL) and its comfortable leverage. The warehousing park, with a total leasable area of 2.6 lakh sq. ft. comprising two blocks, is favourably located inside the Domestic Tariff Zone (DTZ) of Sri City, which is an integrated business city in Andhra Pradesh. The rentals for Block B100A (1.7 lakh sq. ft.) commenced from June 2022 and for Block B100B (0.95 lakh sq. ft.) from January 2023. ICPL's leverage is comfortable with estimated total external debt to NOI of 4.9 times as of March 2025. The rating continues to consider the strong business profile and established track record of the IndoSpace Network (the Network) in the industrial, warehousing and logistics park business in India.

The rating, however, is constrained by the high tenant concentration risk with the entire area leased to two tenants, of which one tenant occupies 64% of the area. ICPL is also exposed to vacancy risk as the weighted average lease expiry for the asset is 2.2 years. Its debt coverage indicators remain moderate with 5-year average DSCR in the range of 1.1-1.15 times for FY2025 to FY2029 period. Any weakening of the credit profile of tenants resulting in delayed rental payments or any significant vacancy for a prolonged period will adversely impact the company's cash flows and debt coverage indicators. Nonetheless, ICRA derives comfort from the sponsor's vast experience in the warehousing space, large portfolio of IndoSpace across geographies and its established relationship with potential tenants. Additionally, ICRA expects the sponsor to provide timely funding support to ICPL, in case the need arises. The company also faces high geographical and asset concentration risks inherent in single project companies.

The Stable outlook on the rating reflects ICRA's opinion that ICPL will generate steady rental revenues from the leased blocks while maintaining comfortable leverage, and ICPL will continue to benefit from the extensive experience of the IndoSpace Network in the warehousing space to mitigate any vacancy risks.

Key rating drivers and their description

Credit strengths

Strong occupancy at 100% leasing; favourable project location – ICPL has developed 2.6 lakh sq. ft. of leasable area inside DTZ of Sri City, which is an integrated business city in the Chittoor district of Andhra Pradesh. The rentals for Block B100A (1.7 lakh sq. ft.) commenced from June 2022 and for Block B100B (0.95 lakh sq. ft.) from January 2023. Leasing of 100% of the area supports the future cashflow visibility. The location is favourable in terms of ready access to infrastructure such as roads, power, and telecom. The project is located off the National Highway 16 that connects Chennai (~67 km) to Kolkata and has easy access to air, sea, and railway hubs.

Comfortable leverage – The project was funded by a debt-to-equity ratio of 1:1. ICPL's leverage is expected to be comfortable with total external debt to NOI of 4.9 times as of March 2025. Further, the bank facility requires maintaining an escrow mechanism and a DSRA (equivalent to three months of debt servicing obligations) for the LRD loan.

Strong track record and business profile of sponsors – The IndoSpace Group is one of India’s leading developers of industrial and warehousing parks. ICPL is promoted by ILP II Ventures II Pte. Ltd., Singapore (part of the IndoSpace Group). IndoSpace is sponsored by Realterm Global, Everstone Capital and GLP Global. Realterm Global has more than 20 years of experience in developing industrial and logistics parks across the world and at present manages assets worth over USD 7 billion. It operates some of the largest and most modern facilities in North America and other parts of the world. Everstone Capital is a prominent India-focused investment firm, and the Everstone Group manages funds of over USD 5 billion in private equity and real estate. GLP Global is an investment firm, with over USD 100 billion assets under management (AUM) across multiple asset classes including real estate, private equity segments and infrastructure.

Credit challenges

Moderate debt coverage indicators – The rating is constrained by modest debt coverage metrics with the five-year estimated DSCR in the range of 1.1-1.15 times for FY2025-FY2029 period. ICPL’s debt coverage metrics are vulnerable to changes in occupancy, rental realisations, and interest rates. Nonetheless, ICRA derives comfort from the sponsor’s vast experience in the warehousing space, large portfolio of IndoSpace across geographies and its established relationship with potential tenants. Additionally, ICRA expects the sponsor to provide timely funding support to ICPL, in case the need arises.

Exposure to tenant concentration risk and vacancy risk – The company is exposed to tenant concentration risk with the entire area leased to two tenants, of which one tenant occupies 64% of the area. It is also exposed to vacancy risk as the weighted average lease expiry for the asset is 2.2 years. Any weakening in the credit profile of tenants resulting in delayed rental payments or any significant vacancy for a prolonged period will adversely impact ICPL’s cash flows and debt coverage indicators. The vacancy risk, however, is mitigated to some extent by the large portfolio of the Network across geographies and the established relationship with reputed tenants.

Geographical and asset concentration risks – IndoSpace Sri City II is a single project undertaken by ICPL. Thus, it is exposed to high geographical and asset concentration risks inherent in the single project companies. However, ICRA draws comfort from the Group’s diverse portfolio of logistics and industrial parks (including developed and under-development parks) across India.

Liquidity position: Adequate

As of December 2023, the company had free cash and a bank balance of Rs. 2.2 crore. The debt repayment obligations of Rs. 2.5 crore in FY2025 and Rs. 2.8 crore in FY2026 are expected to be adequately met from its cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade the rating in case of improvement in rental rates leading to 5-year DSCR greater than 1.35 times on a sustained basis.

Negative factors – Pressure on the rating could arise if there are sustained vacancy and/or any additional indebtedness, resulting in weakening of leverage and debt coverage ratios.

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

IndoSpace Chittoor II Private Limited (100% subsidiary of ILP II Ventures II Pte. Ltd., Singapore) has developed an industrial and logistics park, IndoSpace Sri City, on a land admeasuring approximately 11 acres, with a total leasable area of around 2.6 lakh

sq. ft. comprising two blocks inside DTZ of Sri City, which is an integrated business city in Chittoor district of Andhra Pradesh. The asset is fully leased, and rentals have fully commenced. The rentals for B-100A (1.7 lakh sq. ft., i.e., 64% of the total area) commenced from June 2022 and for B-100B (0.95 lakh sq. ft.) from January 2023. ICPL owns the lease hold rights on a long-term lease of 99 years from Sri City Private Limited for developing the project.

Key financial indicators (audited)

| | FY2022 | FY2023 | 9M FY2024* |
|--|--------|--------|------------|
| Operating income | 0.0 | 5.1 | 4.6 |
| PAT | -2.2 | -2.3 | -2.8 |
| OPBDIT/OI | NM | 76.7% | 72.2% |
| PAT/OI | NM | -44.8% | -61.1% |
| Total outside liabilities/Tangible net worth (times) | 3.4 | 5.4 | 7.3 |
| Total debt/OPBDIT (times) | -59.6 | 13.1 | 11.5 |
| Interest coverage (times) | -0.5 | 1.1 | 0.9 |

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; all ratios are as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | | Current rating (FY2025) | | | 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 FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 |
| | | | | | Apr 24, 2024 | - | Jan 27, 2023 | - |
| 1 | Term loans | Long term | 36.00 | 33.92 | [ICRA]A- (Stable) | - | [ICRA]A- (Stable) | - |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|-----------------------------------|----------------------|
| Long-term fund-based – Term loans | 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 loans | November 2022 | NA | April 2033 | 36.00 | [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 – Not Applicable

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