

June 28, 2024

Mindspace Business Parks Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund Based Term Loans	1,255.75	603.00	[ICRA]AAA(Stable); reaffirmed
Short-term – Non-Fund Based	75.00	-	-
Short-term – Fund Based	-	200.00	[ICRA]A1+; reaffirmed
Long term – Unallocated Limits	-	527.75	[ICRA]AAA(Stable); reaffirmed
Total	1,330.75	1,330.75	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmed ratings for Mindspace Business Parks Private Limited (MBPPL) continues to factor in the strength of the promoter, as MBPPL is part of Mindspace Business Park REIT (Mindspace REIT, rated [ICRA]AAA (Stable)) and holds strategic importance for the REIT. MBPPL contributed to 27% of Mindspace REIT's consolidated NOI and ~26% of the REIT's market value as on March 31, 2024. ICRA notes that certain assets of MBPPL have been encumbered for secured borrowings at Mindspace REIT, leading to higher linkages between the entities.

The rating favourably considers its comfortable leverage and debt coverage metrics. While the committed occupancy of the completed area declined to 81% as of March 31, 2024 from 88% as on March 31, 2023, due to a major tenant vacating certain areas as part of its consolidation plans, the leverage [Debt¹/Net operating income (NOI)] is estimated to remain comfortable at less than 3.5 times in the medium term, supported by low debt levels as well as sustained rental inflows from healthy occupancy levels. Consequently, the company's debt coverage metrics as reflected by the five-year average debt service coverage ratio (DSCR) are expected to remain comfortable at above 2.0 times during FY2025-FY2029. The rating also factors in MBPPL's diversified commercial office portfolio in the key micro-markets of three cities – Mumbai, Pune and Hyderabad – with a total completed area of 7.9 msf and 2.0 msf of under-construction and future development area, respectively as on March 31, 2024. The existing tenant profile is strong spread across diversified sectors with lease tenures of 5-15 years, ensuring rental income visibility in the near to medium term.

ICRA, however, considers MBPPL's exposure to high tenant concentration risk in its constituent properties. The top five tenants contribute ~51% of the gross rental income at Mindspace Airoli East, Mumbai; 68% at Commerzone Yerwada, Pune; and 100% of the rentals at The Square Nagar Road, Pune. Further, Mindspace Pocharam (accounted for 0.6% of overall NOI with occupancy of 71% in FY2021) is fully vacant as of March 2024. However, the strong tenant profile, long-term leases, competitive rentals for most assets and significant investments in fitouts by tenants mitigate the tenant concentration risk to an extent. The ratings also notes the inherent cyclicity in the real estate industry and vulnerability to adverse macroeconomic and external conditions, which could impact the tenant's business risk profiles. Also, the rating notes the susceptibility of its debt coverage metrics to factors such as changes in interest rates or material reduction in occupancy levels. The ratings factor in the under-construction/future development potential of around 2.0 msf of additional area. While these capex plans are at a nascent stage, the ratings will remain sensitive to the funding mix and its impact on the leverage indicators going forward.

¹ Including external debt of MBPPL and guaranteed debt backed by security of MBPPL which is raised at REIT level

ICRA believes the company's credit profile will remain stable on the back of a geographically diversified asset base with strong tenant profile, comfortable debt coverage and leverage metrics and support from sponsor due to its strategic importance.

Key rating drivers and their description

Credit strengths

Strength derived from parentage and status as a strategically important SPV of Mindspace REIT – MBPPL's entire stake is held by Mindspace Business Parks REIT. The asset portfolio under the REIT includes some major business parks in Mumbai, Hyderabad, Pune and Chennai, with a reputed and diversified tenant mix, comprising leading multi-nationals and Indian corporates. The REIT's portfolio includes completed office space area of 26.3 msf, along with under-construction and future development potential of 7.0 msf. MBPPL is a strategically important special purpose vehicle (SPV) for Mindspace REIT, contributing to 27% of Mindspace REIT's consolidated NOI and around 26% of the REIT's market value as on March 31, 2024.

Comfortable leverage and coverage metrics – The company's leverage (debt/NOI) is estimated to be comfortable at less than 3.5 times in the medium term, supported by low debt levels as well as sustained rental inflows owing to healthy occupancy levels. Consequently, the company's debt coverage metrics as reflected by the five-year average DSCR are expected to remain comfortable at above 2.0 times during FY2025-FY2029.

Geographically diversified portfolio with strong tenant profile – The company has a diversified commercial office portfolio in the key micro-markets of three cities – Mumbai, Pune and Hyderabad – with a total completed area of 7.9 msf and 2.0 msf of under-construction and future development area, respectively as of March 31, 2024. The largest project owned by MBPPL is located at Airoli East, Mumbai, with a total completed area of 4.8 msf. The other assets include Mindspace Pocharam (Hyderabad), Commerzone Yerwada, Pune and The Square Nagar Road, Pune. The committed occupancy of the completed area declined to 81% as on March 31, 2024 from 88% as on March 31, 2023 as one of the major tenants vacated certain area in the premises due to its consolidation plans. The existing tenant profile is strong spread across diversified sectors with lease tenures of 5-15 years, ensuring rental income visibility in the near to medium term.

Credit challenges

Exposure to high tenant concentration risk – The tenant concentration risk remains high across its constituent projects. The top five tenants contribute approximately 51% of the gross rental income at Mindspace Airoli East, Mumbai; 68% at Commerzone Yerwada, Pune; and 100% of the rentals at The Square Nagar Road, Pune. Further, Mindspace Pocharam (accounted for 0.6% of overall NOI with occupancy of 71% in FY2021) is fully vacant as of March 2024. However, the strong tenant profile, long-term leases, competitive rentals for most assets and significant investments in fitouts by tenants mitigate the tenant concentration risk to an extent.

Vulnerable to cyclical – The company remains exposed to the inherent cyclical in the real estate industry and vulnerability to adverse macroeconomic and external conditions, which could impact the tenant's business risk profiles. The rating notes the susceptibility of its debt coverage metrics to factors such as changes in interest rates or material reduction in occupancy levels.

Liquidity position: Strong

The company's liquidity position is strong and will be supported by stable rental income from the underlying assets. The company had prepaid its term loan to the tune of ~Rs. 300.0 crore in Q1FY2025 and was largely funded by loans from Mindspace REIT. The remaining principal obligation of ~Rs. 55-65 crore can be met comfortably through its estimated cash flow from operations. Additionally, it reported free cash and bank balances of Rs. 223.1 crore as on March 31, 2024.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – ICRA could downgrade MBPPL's ratings if a significant increase in borrowings or a material decline in the NOI leads to an increase in the total debt/NOI to above 6.0 times on a sustained basis. Further, any deterioration in the credit profile of the Mindspace REIT might have a bearing on MBPPL's ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD)
Parent/Group support	Parent Company: Mindspace Business Parks REIT ICRA expects that MBPPL's parent will be willing to extend financial and operational support, if required, given the strategic importance of MBPPL to the Mindspace REIT, and the significant contribution of the SPV to the overall NOI and valuation of the REIT
Consolidation/Standalone	The ratings are based on the company's standalone financial statements

About the company

Incorporated in December 2003, MBPPL was promoted by the CL Raheja Group. The company was acquired by Mindspace Business Parks REIT in August 2020 and is now a 100% subsidiary of the REIT. As on date, it has four commercial projects under operations with a total leasable area of 9.9 msf, of which 7.9 msf is completed with a committed occupancy of 81% as on March 31, 2024.

Key financial indicators (audited)

MBPPL	FY2023	FY2024
Operating income	628.3	691.9
PAT	176.7	233.4
OPBDIT/OI	69.3%	69.3%
PAT/OI	28.1%	33.7%
Total outside liabilities/Tangible net worth (times)	5.7	6.7
Total debt/OPBDIT (times)	3.6	2.9
Interest coverage (times)	3.2	4.0

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

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
				Jun 28, 2024	Jul 26, 2023	Apr 12, 2023	Apr 14, 2022	May 31, 2021
1 Term loans	Long term	603.00	526.63	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2 Short-term – Fund Based limits	Short term	200.00	-	[ICRA]A1+	-	-	-	-
3 Long term Unallocated	Long term	527.75	-	[ICRA]AAA (Stable)	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4 Fund based	Short term	-	-	-	-	-	[ICRA]A1+	[ICRA]A1+
5 Non-Fund based	Short term	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6 NCD	Long term	-	-	-	[ICRA]AAA (Stable); Withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term –Fund based term loans	Simple
Short-term –Fund based	Simple
Long term- Unallocated limits	Not applicable

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 1	FY2023	NA	FY2038	350.0	[ICRA]AAA (Stable)
NA	Term loans 2	FY2020	NA	FY2031	253.0	[ICRA]AAA (Stable)
NA	Fund Based limits	NA	NA	NA	200.00	[ICRA]A1+
NA	Unallocated limits	NA	NA	NA	527.75	[ICRA]AAA (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

ANALYST CONTACTS

Rajeshwar Burla

+91 40 6939 6443

rajeshwar.burla@icraindia.com

Abhishek Lahoti

+91 40 6939 6433

abhishek.lahoti@icraindia.com

Anupama Reddy

+91 40 6939 6427

anupama.reddy@icraindia.com

Vishal R

+91 80 4332 6419

vishal.r@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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