August 20, 2024

TABLESPACE Technologies Private Limited: [ICRA]A- (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	848.65	[ICRA]A- (Stable); assigned
Long-term – Unallocated Limits	251.35	[ICRA]A- (Stable); assigned
Total	**1,100.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating factors in the extensive experience of Tablespace Technologies Private Limited's (TTPL/Table Space/the company) promoters and management in the corporate real estate and managed workspace segments, reputed tenant profile, favourable location for most of its workspaces, and presence of back-to-back leasing arrangements for the major portion of its revenues with both the clients and landlords for the entire tenure of the rental, insulating it from the vacancy risk. ICRA also notes the healthy occupancy level of 91% as of March 2024 for the company, on a leasable area of ~5.7 million square feet. The rating also takes comfort from the company's strong revenue growth of 97% and 35% in FY2023 and FY2024, respectively, supported by sizeable increase in leasable area and healthy occupancy levels. Going forward, an expected increase in rental inflows, supported by further addition of leasable area and continued healthy occupancy levels are expected to improve the company's debt coverage metrics. The rating also considers the large and diversified geographical presence with 60+ live centres across seven cities - Bangalore, Hyderabad, Chennai, Mumbai, Pune, New Delhi, Delhi NCR (Gurgaon and Noida). The company predominantly caters to reputed MNC clients such as Google, Microsoft, Shell Corporation, Advanced Micro Devices (AMD), among others. The rating also factors in the low tenant concentration risk, wherein, the top 10 tenants contributed ~30% to the company's revenues in FY2024. TTPL raised cumulative equity of ~Rs. 700 crore from AGS TS II Holdings Pte Ltd. in FY2023 and FY2024. ICRA notes that the company is currently in advanced stages of securing incremental equity infusion of USD 75 million from AGS TS II Holdings Pte Ltd. to expand its business operations and fund its working capital requirements in the near term and the same is expected to be infused shortly.

The rating is, however, constrained by the sizeable expansion plans, which require the company to incur capex, in turn significantly increasing TTPL's exposure to funding, marketing and execution risks. The total outlay of the proposed capex is over Rs. 1,800 crore between FY2025 and FY2027. The same is likely to be funded through a combination of incremental equity raised, incremental debt drawdown, net security deposit from clients and internal accruals. Given the sizeable capex, timely ramp-up of occupancy and realisation per square feet at which the additional area is leased and renewal rates for the upcoming lease expiries will also be monitored. With the steady outlook for Global Capability Centres (GCC) in India, TTPL's growth and utilisation of the proposed additional area will be closely linked to the expansion plans of multi-national corporations (MNCs) in India. Additionally, TTPL is exposed to the lease renewal risk with 3.5 years of weighted average remaining lease term for the leases existing as on March 31, 2024. Further, the company is exposed to the cyclicality in the commercial real estate sector and vulnerability to external factors. Besides, the debt coverage ratios remain susceptible to material changes in occupancy and interest rates.

The Stable outlook reflects ICRA's expectation that the company will be able to sustain healthy occupancy, supported by its reputed and diversified clientele profile, and improvement in its debt coverage metrics.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and management in the commercial real estate and managed workspace segment – The company was promoted by Mr. Amit Banerji (MD and Promoter) along with Mr. Karan Chopra and Mr. Srinivas Prasad in 2017. Mr. Amit Banerji is a Computer Science Engineer and worked with Accenture for 15 years before co-founding TTPL. He is also a patent holder with inventions in systems and technology integration. Mr. Karan Chopra has 15+ years of experience in running various start-ups in media, entertainment, and real estate, with extensive experience in converting user requirements into technology solutions. Mr. Srinivas Prasad worked at an Investment Banking firm and was involved in several M&A transactions. Apart from them, the management's extensive work experience in real estate, technology, hospitality industry etc., have aided the company in ramping up significantly over the last few years.

Healthy occupancy and estimated improvement in debt coverage metrics – The company's rent paying area increased to 5.66 msf as on March 31, 2024, from 3.97 msf as on March 31, 2023. Despite sizeable addition of area, the occupancy level improved to 91% in FY2024 from 82% in FY2023, supported by increase in demand for the managed workspaces segment in addition to the strong deal inflow witnessed by TTPL from large MNCs and Fortune 500 companies. TTPL's revenues are expected to witness healthy growth, going forward, backed by addition of incremental leasable area of 2.6 msf in FY2025 and continued healthy occupancy levels. This is expected to improve TTPL's operating profits and debt protection metrics wherein the company's DSCR (debt service coverage ratio) is likely to improve to 1.9 times in FY2025. The equity infusion of $75 million will further aid in improvement of DSCR above these levels.

Back-to-back agreements with reputed clientele for part of its portfolio – The company derived ~67% and ~60% of the total revenue from the back-to-back business model in FY2023 and FY2024, respectively. Under the back-to-back model, the company enters a long-term contract with both its clients and the landlord for the entire tenure of the rental, insulating it from the vacancy risk. ICRA understands that 40% of the company's existing clients have enhanced their occupied area over the last few years, which provides healthy revenue visibility for the company. Further, TTPL predominantly caters to a reputed clientele, which includes top MNCs and Fortune 500 companies such as Google, Microsoft, Shell Corporation, AMD, among others.

Large and diversified presence with low tenant concentration – The ratings take comfort from the large and diversified presence of the company with 60+ centres spread across seven cities Bangalore, Hyderabad, Chennai, Mumbai, Pune, New Delhi, and Delhi NCR (Gurgaon and Noida). Most of the company's assets are located in prominent Grade-A buildings in micro-markets across India, enhancing the marketability. Further, the company has low tenant concentration risk, with the top 10 clients contributing ~30% to the total annual revenue in FY2024.

Credit challenges

Exposure to market risk due to sizeable expansion plan – The company has large capex plans, which are expected to result in a total cumulative outlay of ~Rs. 1,800 crore over FY2025-2027, with proposed addition of ~7.5 msf additional area, exposing the company to funding, marketing and execution risks for the new capacities. Given the sizeable capex, timely ramp-up of occupancy and realisation at which the additional area is leased in the upcoming space and renewal rates for the existing area will remain a key monitorable.

Exposed to moderate lease renewal risk – The company is exposed to lease renewal risk with 3.5 years of weighted average remaining lease term for the leases existing as on March 31, 2024, of which ~10% of the lease contracts are expiring in FY2025. ICRA understands that among the leases that are expiring in FY2025, more than 50% have already been renewed and the remaining are under negotiation. Notwithstanding the healthy lease renewal rates in the past, the same for the future tenants will remain a key monitorable. Further, the per square feet realisation at which the upcoming lease expiries will be renewed will also be a key determinant of the company's margin trajectory and accruals, going forward.

Vulnerability of commercial real estate sector to cyclicality – The real estate sector in India is cyclical and volatile, resulting in fluctuations in demand. TTPL is exposed to the cyclicality in the office leasing segment and vulnerability to external factors. Further, the debt coverage ratios remain susceptible to material changes in occupancy and interest rates.

Liquidity position: Adequate

The company's liquidity is adequate with free cash and bank balance of ~Rs. 121.8 crore as on March 31, 2024. The company has additional undrawn limits of ~Rs. 180 crore term loan. The company has overall sanctioned working capital limits of Rs. 167.0 crore, of which the average utilisation for the past 12 months ended in May 2024 stood at ~73%. The company has scheduled external debt repayment obligations of ~Rs. 171 crore, ~Rs. 173 crore and ~Rs. 181 crore in FY2025, FY2026 and FY2027, respectively. The expected cash accruals and available liquidity are adequate to support the same. Further, TTPL plans to incur capex of ~Rs. 1,800 crore over next three years, which is likely to be funded by equity infusion, additional LRD loans, security deposits and internal accruals.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a significant increase in scale of operations and profitability, along with improvement in debt coverage metrics and liquidity position on a sustained basis.

Negative factors – The rating could be downgraded if there is a material decline in occupancy or profitability and/or significant debt funded expansion resulting in weakening of debt coverage metrics and liquidity position on a sustained basis. Specific credit metric for a rating downgrade would be DSCR below 1.4 times on a sustained basis. Significant delays in equity infusion could also trigger a downward revision in rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD)
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of the rated entity.

About the company

Tablespace Technologies Private Limited (TTPL/the company) was founded in 2017 as a managed workspace operator, providing a range of services including workspace rentals and customisable office spaces to corporate clients. TTPL has 60+ live centres across Bangalore, Hyderabad, Chennai, Mumbai, Pune, New Delhi and Delhi NCR (Gurgaon and Noida). TTPL's portfolio comprised live leased area of 4.9 million square feet (sq. ft.) spread across these seven locations as on March 31, 2024. The company predominantly caters to reputed MNCs such as Google, Microsoft, Shell Corporation, AMD, among others.

TTPL is a B2B organisation and mainly operates under two business models. The first one is the back-to-back model, under which the company enters a back-to-back arrangement with both its client and the landlord for the entire tenure of the rental, insulating it from the vacancy risk. The second model is the speculative model, wherein the company leases the assets based on the estimated demand, wherein, the company identifies the demand beforehand and then taps opportunities in micro markets with high demand.

Key financial indicators (audited)

	FY2022	FY2023	FY2024*
Operating income	344.1	678.4	918.7
PAT	44.6	46.0	52.0
OPBDIT/OI	68.6%	58.3%	54.7%
PAT/OI	12.9%	6.8%	5.7%
Total outside liabilities/Tangible net worth (times)	26.1	10.4	6.7
Total debt/OPBDIT (times)	4.6	5.7	5.6
Interest coverage (times)	3.3	2.6	2.1

*Source: Company, ICRA Research; * Provisional numbers (Standalone); All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Total Debt (including lease liabilities and compulsory convertible preference shares)*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. Crore)	Aug 20, 2024	Date	Rating	Date	Rating	Date	Rating
Long term-term loan-fund based	Long Term	848.65	[ICRA]A- (Stable)	-	-	-	-	-	-
Long term-unallocated	Long Term	251.35	[ICRA]A- (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	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 Loan**	FY2021-24	NA	FY2025-29	848.65	[ICRA]A- (Stable)
NA	**Unallocated Limits**	NA	NA	NA	251.35	[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

Company Name	Ownership	Consolidation Approach
Tablespace Services Private Limited	100.0%	Full Consolidation
Tablespace Constructions Private Limited	100.0%	Full Consolidation

Source: Company Annual Report

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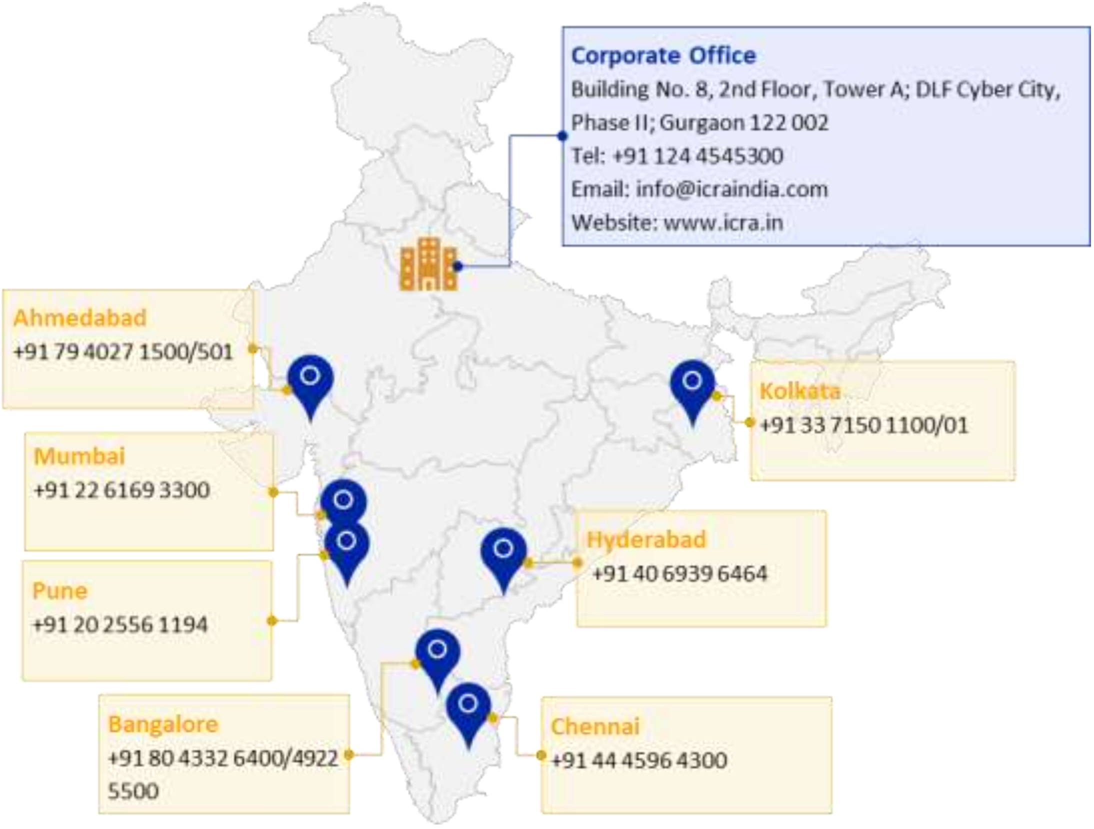

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