

October 18, 2024

Arvy Logistics Park Private Limited: Ratings placed on Watch with Negative Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loans	75.00	75.00	[ICRA]BBB+; Placed on rating watch with negative implication
Short-term – Letter of credit (LC)^	(10.00)	(10.00)	[ICRA]A2; Placed on rating watch with negative implication
Long-term – Lease rental discounting (LRD)^	(75.00)	(75.00)	[ICRA]BBB+; Placed on rating watch with negative implication
Short-term – Non-fund based – Bank guarantee	2.00	2.00	[ICRA]A2; Placed on rating watch with negative implication
Total	77.00	77.00	

*Instrument details are provided in Annexure-I; ^ LC & LRD are sub limits of term loans

Rationale

The rating for the bank facilities of Arvy Logistics Park Private Limited (The company) is placed on watch with negative implications following the termination of rental agreement with its tenant for Block B100 (53.5% of the total leasable area)—a built-to-suit, cold storage facility. Block B100 was earlier leased out completely with a lock-in period of 10 years; however, the termination of the rental agreement and non-payment of lock-in period rentals have pressurised the cash flows of the project special purpose vehicle (SPV) and is a credit negative. The SPV has filed a legal suit against the earlier tenant for non-payment of lock-in period rentals, and the case is currently sub-judice. While it has entered into short-term agreements with a few clients with cold-storage requirements in the current fiscal, the utilisation-based rentals with no requirement of minimum offtake and the modest current utilisation levels are expected to impact the company's cash flows in the near term. The company is in talks with other companies as well to lease out Block B100 and expects the same to be leased out in the next few months. ICRA will continue to monitor the development in this regard and take further rating action as and when more clarity emerges.

ICRA notes that the company has completed the remaining Block B200 within the scheduled date of commencement of commercial operations (DCCO) of March 2024 and has tied-up leases for the entire block, thereby mitigating the market risk to an extent. Of the 1.32 lakh square feet (Isf) of leasable area of Block B200, the company has signed up leasing agreement for 0.48 Isf, with rentals expected to commence from January 2025. For the balance area of 0.84 Isf, the company has signed a letter of intent (LOI), and the rentals are expected to start from August 2025, post signing of the rental agreement and completion of fit-outs. ICRA anticipates the DSCR to remain weak in FY2025 and FY2026 due to low rentals. Given this, the ramp-up in utilisation of Block B100 as a cold storage facility and timely commencement of rentals from B200 remain critical from the credit perspective. Any shortfall in debt servicing is expected to be met from the timely fund infusion by the sponsor group, IndoSpace.

ICRA notes that the sponsor group has infused Rs. 10.4 crore in H1 FY2025 and remains committed to provide additional funding support, whenever required. ICRA also notes the favourable sponsor profile, along with the established track record of IndoSpace in the industrial warehousing and logistics space in India. The company is expected to benefit from the exceptional financial flexibility of IndoSpace and its track record of honouring the sponsor's undertakings to lenders by infusing funds into various SPVs, whenever needed. The rated facility also has an escrow mechanism in place and requires maintaining a debt service reserve account (DSRA), equivalent to three months of repayment obligations during the entire loan tenure. The ratings also note the project's favourable location in Khopoli, Maharashtra, near the Mumbai–Pune–Bangalore Highway (part of NH-48). The site is in proximity to four the major industrial areas of Khalapur, Taloja, Rasayani and Kalamboli.

The ratings, however, are constrained by the high tenant concentration risk with only two tenants occupying Block B200, and variability of cash flow associated with Block B100. Moreover, the company is exposed to high geographical and asset concentration risks inherent in single-project companies.

Key rating drivers and their description

Credit strengths

Strong track record and business profile of sponsors; financial flexibility from being part of a strong sponsor group – Arvy Logistics Park Pvt Ltd is promoted by ILP II Ventures IX Pte. Ltd., Singapore (part of the IndoSpace network). 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. At present, it manages assets worth over \$4 billion and 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. The Everstone Group manages funds of over \$5 billion in private equity and real estate. GLP Global is an investment firm with over \$60 billion assets under management (AUM) across the real estate and private equity segments. ICRA derives comfort from the high financial flexibility of the network and its track record of honouring sponsor undertakings to lenders and infusing funds into various SPVs, whenever needed.

Partially operational nature of project, leasing tie up for B200 in place – ICRA notes that the company has completed the remaining Block-B200 within the scheduled DCCO of March 2024 and has tied-up leases for the entire block, thereby mitigating the market risk to an extent. Of the 1.32 Isf leasable area, the company has signed up leasing agreements for 0.48 Isf of Block B200, where rentals are expected to commence from January 2025. For the balance 0.84 Isf, the company has signed an LOI, and the rentals are expected to start from August 2025, after the signing of the rental agreement and completion of fit-outs.

Credit challenges

Weak debt coverage indicators – The company's cash flows have been impacted by the termination of the rental agreement with its tenant for Block B100 (53.5% of the total leasable area). Block B100 block was earlier leased out completely with a lock-in period of 10 years; however, the termination of the rental agreement and non-payment of lock-in period rentals have pressurised the cash flows of the project SPV and is a credit negative. The SPV has filed a legal suit against the earlier tenant for non-payment of lock-in period rentals, and the case is currently sub-judice. While it has entered into short-term agreements with a few clients having cold-storage requirements in the current year, the utilisation-based rentals with no requirement of minimum offtake and the modest current utilisation levels are expected to impact the company's cash flows in the near term. While the company has tied-up leases for Block B200, the rentals have not yet commenced. ICRA anticipates the DSCR to remain weak in FY2025 and FY2026 due to low rentals. Any shortfall in debt servicing is expected to be met from the timely fund infusion by the sponsor group, IndoSpace.

Exposure to tenant concentration, geographical and asset concentration risks – The ratings are constrained by the high tenant concentration risk with a single tenant occupying Block B100. However, multiple storage agreements with different entities for B100 mitigates the risk to an extent. The company is exposed to high geographical and asset concentration risks inherent to single-project companies.

Liquidity position: Stretched

As of September 30, 2024, the company had free cash and liquid balances of Rs. 0.59 crore and DSRA of Rs. 2.94 crore. The company's debt servicing obligations for FY2025 are Rs. 10.5 crore. Given the low rentals, there is expected to be a shortfall in debt servicing, which will be met through infusion of funds from the sponsor group. The sponsor group has infused funds of Rs. 10.4 crore in H1 FY2025, which have been utilised for meeting the debt servicing requirements, operating overheads and for paying off creditors.

Rating sensitivities

Positive factors – The rating watch would be resolved in case of a substantial increase in the company's rental income, leading to improvement in its debt protection metrics, and mitigating the refinancing risk.

Negative factors – The company's inability to demonstrate material improvement in rentals from Block B100 or delays in commencement of rentals for Block B200, resulting in a sustained pressure on the company's debt protection metrics, could trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty – Lease Rental Discounting (LRD)
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Arvy Logistics Park Pvt. Ltd., a 100% subsidiary of M/s. ILP II Ventures IX Pte. Ltd., Singapore, operates an industrial and warehousing park on approximately 16.8 acres, with a total leasable area of about 0.28 msf, comprising two warehouses at Pen-Khopoli Road, Ransai Village, Khalapur Taluka, in the Raigad district of Maharashtra.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	-	-
PAT	-2.7	-17.3
OPBDIT/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	6.2	29.7
Total debt/OPBDIT (times)	-198.1	-103.5
Interest coverage (times)	-0.2	-0.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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					
FY2025				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	18-OCT-2024	Date	Rating	Date	Rating	Date	Rating
Short term-bank guarantee-non fund based	Short Term	2.00	[ICRA]A2 Rating Watch with Negative Implications	28-JUL-2023	[ICRA]A2	29-JUL-2022	[ICRA]A2	-	-
Long term-lease rental discounting (lrd)-interchangeable	Long Term	(75.00)	[ICRA]BBB+ Rating Watch with Negative Implications	28-JUL-2023	[ICRA]BBB+ (Positive)	29-JUL-2022	[ICRA]BBB+ (Stable)	-	-
Long term-term loan-fund based	Long Term	75.00	[ICRA]BBB+ Rating Watch with Negative Implications	28-JUL-2023	[ICRA]BBB+ (Positive)	29-JUL-2022	[ICRA]BBB+ (Stable)	-	-
Short term-letter of credit-interchangeable	Short Term	(10.00)	[ICRA]A2 Rating Watch with Negative Implications	28-JUL-2023	[ICRA]A2	29-JUL-2022	[ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Letter of credit*	Very Simple
Lease rental discounting (LRD)*	Simple
Bank guarantee	Very Simple

* LC & LRD are sub limits 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	Sep 24, 2021	-	FY2027	75.00	[ICRA]BBB+ Rating Watch with Negative Implications
NA	Letter of credit*	-	-	-	(10.00)	[ICRA]A2 Rating Watch with Negative Implications
NA	Lease rental discounting (LRD)*	-	-	-	(75.00)	[ICRA]BBB+ Rating Watch with Negative Implications
NA	Bank guarantee	-	-	-	2.00	[ICRA]A2 Rating Watch with Negative Implications

* LC & LRD are sub limits of term loans

[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

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Anupama Reddy

+91 40 6939 6427

anupama.reddy@icraindia.com

Tushar Bharambe

+91 22 6169 3347

tushar.bharambe@icraindia.com

Abhilash Sirsikar

+91 22 6169 3379

abhilash.sirsikar@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

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.

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



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.