October 24, 2024

ERPL Warehousing Park Private Limited: Long-term rating reaffirmed and assigned for enhanced amount; short-term rating reaffirmed and withdrawn

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based - Term loans	225.00	235.40	[ICRA]BBB+ (Stable); reaffirmed and assigned for enhanced amount
Long-term – Non-fund based - Letter of credit	(10.00)*	-	-
Short-term – Non-fund based - Bank guarantee	10.00	-	[ICRA]A2; reaffirmed and withdrawn
Total	**235.00**	**235.40**	

*^ Instrument details are provided in Annexure-I; * sub-limit of term loan*

Rationale

The reaffirmation of the ratings for ERPL Warehousing Park Private Limited (ERPL) factors in the favourable location and operational track record of 1.4 years for 76% of the total leasable area (0.93 million square feet). ERPL is developing an industrial and logistics park on 49 acres of land, with a leasable area of ~1.2 million square feet (msf), spread across three blocks. Two out of the three blocks (B200 and B300) have been constructed and leased, with rentals commencing from May 2023. Consequently, part of the construction finance (CF) debt has been refinanced with a lease rental discounting (LRD) loan. The identified cash flows from the operational blocks, along with the ring-fencing structure for the LRD loan, prevents commingling with other cash flow streams. The rating considers the favourable location of the project, on the Kundli Manesar Palwal Expressway Road in Taoru, Delhi, NCR, with good connectivity through a well-developed network to Gurgaon and Delhi. The ratings draw comfort from the strong business profile of the IndoSpace network (IndoSpace) with an established track record in the industrial, warehousing and logistics park business in India. The project is being funded in a budgeted debt-to-equity ratio of 1.21:1. The funding risk for the remaining block (B100) remains low, as the sanctioned undrawn CF loan of Rs. 49.40 crore, along with the balance committed equity infusion from the sponsor will be sufficient to meet the pending project cost of Rs. 74.50 crore.

The rating is, however, constrained by the project's exposure to residual execution risk with 20% of the budgeted total project cost, pending to be incurred as of June 2024, against the date of commencement of commercial operations (DCCO) of October 01, 2025. The project also faces market risk for the balance 0.29 msf of area, which is yet to be leased. Further, the company remains exposed to refinancing risk for Rs. 49.4 crore of the balance CF (yet to be drawn), which will have bullet repayment in January 2027. The undrawn CF loan will be utilised for partly funding the balance project cost of Rs. 74.6 crore and will be converted to an LRD loan post the leasing tie-ups for the third block (B100). The company's ability to complete the project without any significant time and cost overrun, along with tie-up of incremental leases at adequate rentals in a timely manner will remain critical from the credit perspective. Nonetheless, the extensive experience of the sponsor in the execution and leasing of warehouses, along with significant financial flexibility provide comfort. The leverage measured by the ratio of total debt to NOI for the existing LRD facility is projected to be high at 7.8 times as of March 2025, while the five-year DSCR is expected to be moderate at 1.18-1.20 times for FY2025-FY2029 period. Post completion of the project, at full occupancy, ERPL's leverage is likely to improve to 6.5 times as of March 2027, while five-year DSCR is estimated to remain moderate at 1.18-1.20 times for FY2027-FY2031 period. The rating also factors in the exposure to high geographical and asset concentration risks inherent in a single-project portfolio.

The short-term rating for the bank guarantee limit has been reaffirmed and withdrawn, in line with ICRA's policy on withdrawal and at the request of the company, as the facility has been repaid and there are no dues outstanding.

The Stable outlook reflects ICRA's opinion that the company will complete the project within the scheduled DCCO and secure lease tie-ups at adequate rental rates for the balance area in a timely manner. ICRA expects adequate leverage and moderate debt coverage indicators, post completion of the project.

Key rating drivers and their description

Credit strengths

Established track record and strong business profile of sponsor – ERPL is promoted by ILP III Ventures XXVIII Pte. Ltd (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. At present, it manages assets worth over $7 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, and the Everstone Group manages funds of over $5 billion in private equity and real estate. GLP Global is an investment firm, managing multiple asset classes, including real estate, private equity and infrastructure. It has over $100 billion assets under management (AUM) across the real estate and private equity segments.

Favourable project location; commencement of rentals for 76% of leasable area – The project location is in Taoru, Delhi, NCR. The site is located 34 km from the Kundli Manesar Palwal Expressway Road, providing connectivity through a well-developed network to Gurgaon and Delhi. In addition, the proposed logistics park is well-connected to the industrial area of Taoru, which has many e-commerce and third-party logistics players. ERPL is exposed to the project's low market risk as the company has signed lease deeds for 76% of the area, with one of the leading e-commerce marketplaces in the country.

Low funding risk; conversion of partial CF loan to LRD – The project is being funded in a budgeted debt-to-equity ratio of 1.21:1. The funding risk for the remaining block (B100) remains low, as the sanctioned undrawn CF loan of Rs. 49.40 crore, along with the balance committed equity infusion from the sponsor will be sufficient to meet the pending project cost of Rs. 74.50 crore. The rated CF facility has an escrow mechanism in place and requires maintaining a DSRA equivalent to three months of interest servicing obligations during the moratorium period. ICRA notes the presence of a rating downgrade-linked cancellability covenant specified in the bank sanction. A part of the CF debt has been refinanced by an LRD loan, following the commencement of rentals from two blocks. The identified cash flows from these operational blocks, along with the ring-fencing structure for the LRD loan, prevents commingling with other cash flow streams.

Credit challenges

Exposure to residual execution and market risks – The project is exposed to residual execution risk as about 20% of the budgeted total project cost is yet to be incurred as of June 2024, against the DCCO of October 01, 2025. The project also faces market risk for the balance 0.29 msf of area, which is yet to be leased. The company remains exposed to refinancing risk for Rs. 49.4 crore of the balance CF loan (yet to be drawn), which will have bullet repayment in January 2027. The undrawn CF loan will be utilised for funding the remaining project and will be converted to LRD as leasing tie-ups take place for B100 block. The company's ability to complete the project without any significant time and cost overrun, along with tie-up of incremental leases for B100 block at adequate rentals, in a timely manner, will remain critical from the credit perspective. Nonetheless, the extensive experience of the sponsor in the execution and leasing of warehouses, along with significant financial flexibility provide comfort.

Moderate debt coverage indicators – The debt coverage indicators for the project are estimated to be moderate. The leverage measured by the ratio of debt to NOI for the existing LRD facility is projected to be high at 7.8 times as of March 2025, while the five-year DSCR is expected to be moderate at 1.18-1.20 times for FY2025-FY2029 period. Post completion of the project, at full occupancy, ERPL's leverage is likely to improve to 6.5 times as of March 2027, while the five-year DSCR is estimated to remain moderate at 1.18-1.20 times for FY2027-FY2031 period.

Geographical and asset concentration risks – ERPL is exposed to high geographical and asset concentration risks inherent in single-project companies.

Liquidity position: Adequate

The company's liquidity position is adequate with Rs. 27.4-crore free cash and liquid investments as of August 2024. The pending equity commitment from the sponsors of Rs. 14.3 crore as of September 2023 and the undrawn construction finance loan of Rs. 49.4 crore, along with the security deposits from the tenants, internal accruals and current free cash/liquid investments will be adequate to fund the pending project cost of Rs. 74.9 crore. The cash flow from operations from the leased blocks is sufficient for servicing of the existing LRD debt obligations.

Rating sensitivities

Positive factors – Tie-up of leasing for the remaining block and timely commencement of rentals, along with a significant improvement in the leverage and coverage indicators could lead to a rating upgrade. A specific metric that could result in an upgrade would be if five-year average DSCR is greater than 1.20 times, on a sustained basis.

Negative factors – Any significant cost overruns or unforeseen delays in the completion of the project, or considerable delays in achieving balance lease tie-ups at adequate rental rates, or any significant increase in indebtedness impacting the leverage and coverage indicators could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD) Policy on withdrawal of Credit Rating
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

ERPL Warehousing Park Private Limited is a 100% subsidiary of ILP III Ventures XXVIII Pte. Ltd., Singapore and is developing an industrial and logistic park at Taoru, Delhi, NCR. The project is being developed on a land admeasuring approx. 49 acres with a total leasable area of approx. 1.21 msf.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	2.4	26.0
PAT	-2.4	-8.2
OPBDIT/OI	30.4%	77.6%
PAT/OI	-99.4%	-31.3%
Total outside liabilities/Tangible net worth (times)	2.4	3.2
Total debt/OPBDIT (times)	266.8	12.1
Interest coverage (times)	0.3	0.9

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

Instrument	Current (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loans	Long Term	235.40	24-Oct-2024	[ICRA]BBB+ (Stable)	31-Jan-2024	[ICRA]BBB+ (Stable)	22-Nov-2022	[ICRA]BBB+ (Stable)	17-Nov-2021	[ICRA]BBB+ (Stable)
Letter of credit (LC)	Long Term	-	24-Oct-2024	-	31-Jan-2024	[ICRA]BBB+ (Stable)	22-Nov-2022	[ICRA]BBB+ (Stable)	17-Nov-2021	[ICRA]BBB+ (Stable)
Bank guarantee	Short Term	10.00	24-Oct-2024	[ICRA]A2; withdrawn	31-Jan-2024	[ICRA]A2	22-Nov-2022	[ICRA]A2	17-Nov-2021	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based - Term loans	Simple
Short-term – Non-fund based - Bank Guarantee	Very 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**	May 2021	-	January 2027	49.40	[ICRA]BBB+ (Stable)
NA	**Term loans**	June 2024		June 2037	186.00	[ICRA]BBB+ (Stable)
NA	**Bank Guarantees**	-	-	-	10.00	[ICRA]A2; withdrawn

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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