December 27, 2024

IndoSpace Vallam II Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loan	180.66	180.66	[ICRA]BBB+ (Stable); reaffirmed
Short-term – Letter of credit (LC – sublimit of term loan)#	(10.00)	(10.00)	[ICRA]A2; reaffirmed
Short-term – Bank guarantee (sublimit of term loan)	(5.00)	(5.00)	[ICRA]A2; reaffirmed
Total	**180.66**	**180.66**	

**Instrument details are provided in Annexure-I; # Sublimits of Term Loans*

Rationale

The reaffirmed ratings for IndoSpace Vallam II Private Limited (IVPL) factor in the favourable location of the park in SIPCOT[1] Industrial Area, Vallam, Tamil Nadu, which is one of the major industrial hubs in the southern part of India. Further, the adequate leverage and debt coverage metrics estimated from the project also provide comfort. IVPL, a special purpose vehicle (SPV) sponsored by IndoSpace network[2] (IndoSpace), is developing an industrial and logistics park with a total leasable area of 1.3 million square feet (msf), spread across five blocks, of which, ~48% is leased (three out of four completed blocks of ~1.0 msf) as of September 2024, increasing from 40% as of June 2023. The project is favourably located with good connectivity to Chennai International Airport, Chennai City Centre, port and various industrial areas in the vicinity, including Oragadam, Sriperumbudur and Polivakkam, which are established industrial and automobile hubs, besides the new industrial (primarily auto sector) hub of Vallam. The budgeted project cost of Rs. 361.2 crore is proposed to be funded in a debt-to-equity ratio of 1:1. The funding risk remains low, given that the entire budgeted debt requirement has been tied up and 100% of the committed equity requirement has already been infused as on September 30, 2024. ICRA derives comfort from the exceptional financial flexibility of the network and its track record of honouring sponsor undertakings to lenders and infusion of funds into various SPVs, whenever needed. The ratings also take into account the strong business profile of IndoSpace with an established track record in the industrial, warehousing and logistic park business in India.

The ratings, however, are constrained by the exposure to market risk as 52% of the total area is yet to be leased as of September 2024. The company's ability to achieve residual leasing at adequate rental rates will be a key rating monitorable. However, ICRA derives comfort from the demonstrated ability and track record of IndoSpace to lease and execute projects on time. IVPL is vulnerable to tenant concentration risk with a single tenant occupying two out of three leased blocks, translating to 81% of the overall leased area. The company also faces residual execution risk as ~13% of the revised budgeted project cost is yet to be incurred as of September 2024, against the scheduled date of commencement of operations (DCCO) of March 31, 2025. The budgeted project cost has been revised upwards by 12% to Rs. 406.2 crore on account of an increase in input costs and additional tenant improvement costs required to be incurred (~Rs. 8-10 crore). This cost overrun is proposed to be funded by a mix of existing cash balances and additional debt, which is currently under discussions with lenders and is expected to be tied up by Q4 FY2025. The company is also exposed to high geographical and asset concentration risks inherent in a single project portfolio.

[1] SIPCOT – State Industries Promotion Corporation of Tamilnadu Limited

[2] ILP III Ventures XI Pte Ltd., Singapore (a part of the IndoSpace network, which is sponsored by Realterm Global, Everstone Capital and GLP Global)

The Stable outlook reflects ICRA's opinion that the company will benefit from the extensive experience of its sponsor, IndoSpace, in the warehousing space, enabling it to secure lease tie-ups for the untied area at adequate rental rates, resulting in adequate debt coverage metrics.

Key rating drivers and their description

Credit strengths

Established track record and strong business profile of sponsor – IVPL is promoted by ILP III Ventures XI Pte. Ltd. (part of the IndoSpace network), which is sponsored by Realterm Global, Everstone Capital and GLP Global. Realterm Global has over 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 Group manages funds 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 in assets under management (AUM) across the real estate and private equity segments.

Favourable project location – The industrial and logistics park is in SIPCOT Industrial Park, Vallam. The logistic park is well-connected to the Chennai International Airport, Chennai City Centre, port and various industrial areas in the vicinity, including Oragadam, Sriperumbudur and Polivakkam, which are established industrial and automobile hubs, besides the new industrial (primarily auto sector) hub of Vallam.

Adequate leverage and low funding risk – The budgeted project cost of Rs. 361.2 crore is proposed to be funded in a debt-to-equity ratio of 1:1. The funding risk remains low, given that the entire budgeted debt requirement has been tied up and 100% of the committed equity requirement has already been infused as on September 30, 2024. ICRA derives comfort from the adequate leverage and debt coverage metrics estimated for the project. The rated facility has an escrow mechanism in place and requires maintaining a debt service reserve account (DSRA) equivalent to three months of debt servicing obligations post the moratorium period.

Credit challenges

Exposure to residual execution and market risks – The project is exposed to residual execution risk as about 13% of the revised budgeted project cost is yet to be incurred as of September 2024, against the DCCO of March 31, 2025. The project also faces market risk for the remaining 52% of the total area, which is yet to be leased as of September 2024. The company's ability to achieve residual leasing at adequate rental rates will be a key rating monitorable. However, ICRA derives comfort from the demonstrated ability and track record of IndoSpace to lease and execute projects on time.

Exposure to tenant concentration risks - IVPL is vulnerable to tenant concentration risk, with a single tenant occupying two out of three leased blocks, translating to 81% of the overall leased area.

Geographical and asset concentration risks – The company is exposed to high geographical and asset concentration risks inherent in single-project companies. However, ICRA draws comfort from IndoSpace's diverse portfolio of logistic and industrial parks, including developed and under-development parks across India.

Liquidity position: Adequate

The company's liquidity position is adequate. It has free cash and liquid investments of Rs. 12.6 crore as on September 30, 2024. The project is expected to be completed in February 2025, with debt repayments commencing from June 2025. The cash flow from the project's operations is estimated to be sufficient to service the debt obligations upon completion.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company achieves significant progress in residual leasing at adequate rental rates, resulting in adequate debt coverage metrics. Specific metric that could result in a rating upgrade would be a five-year average DSCR greater than 1.20 times on a sustained basis.

Negative factors – Cost overruns or unforeseen delays in completing the project could exert pressure on the company's ratings. Considerable delays in tying up leases at adequate rentals may also warrant ratings 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

IndoSpace Vallam II Private Limited is developing an industrial and logistic park (IndoSpace Vallam II), measuring ~ 49.82 acres secured on a 99-year lease from SIPCOT. The company is a 100% subsidiary of M/s. ILP III Ventures XI Pte. Ltd., Singapore. The park, with a total leasable area of 1.3 msf, is being developed at SIPCOT – Vallam Vadahal Industrial Park, Bhodhanoor village, Sriperumbudur Taluk, Kancheepuram district of Tamil Nadu.

Key financial indicators (audited)

	FY2024
Operating income	14.7
PAT	-6.3
OPBDIT/OI	64.7%
PAT/OI	-43.0%
Total outside liabilities/Tangible net worth (times)	3.1
Total debt/OPBDIT (times)	23.4
Interest coverage (times)	1.0

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 rating (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	Dec 27, 2024	Date	Rating	Date	Rating	Date	Rating
Term loan	Long term	180.66	[ICRA]BBB+ (Stable)	22-Sept-23	[ICRA]BBB+ (Stable)	10-Aug-22	[ICRA]BBB+ (Stable)	-	-
Letter of credit (sublimit of term loan)	Short Term	(10.00)	[ICRA]A2	22-Sept-23	[ICRA]A2	10-Aug-22	[ICRA]A2	-	-
Bank guarantee (Sublimit of term loan)	Short Term	(5.00)	[ICRA]A2	22-Sept-23	[ICRA]A2	10-Aug-22	[ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Letter of credit (sublimit of term loan)	Very Simple
Bank guarantee (sublimit of term loan)	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 loan	April 2022	-	May 2034	180.66	[ICRA]BBB+ (Stable)
NA	Letter of credit (sublimit of term loan)	April 2022	-	-	(10.00)	[ICRA]A2
NA	Bank guarantee (sublimit of term loan)	April 2022	-	-	(5.00)	[ICRA]A2

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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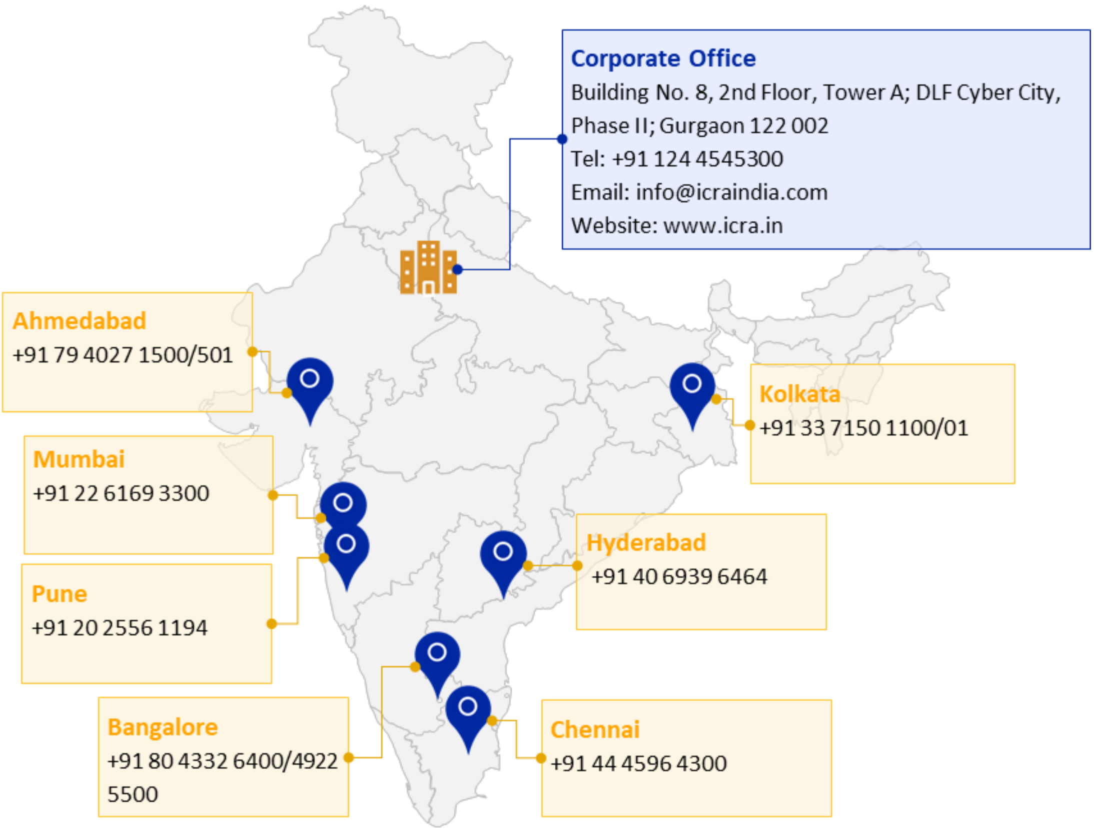

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