

March 05, 2021

## Mn Takshila Industries Private Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LRD Loan	200.00	185.88	[ICRA]BBB- (Stable); Reaffirmed
<b>Total</b>	<b>200.00</b>	<b>185.88</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation considers MN Takshila Industries Private Limited (MNTIPL's) attractive location in Genome valley, Shamirpet, Hyderabad, with built to suite research and development (R&D) facilities, including effluent treatment plants. The rating also takes comfort from MNTIPL's reputed tenant profile viz. Novartis Healthcare Private Limited, Vivo Biotech Limited, GlaxoSmithKline Consumer Healthcare Limited, Ashland India Private Limited; its long-term lease agreements with reputed domestic and international pharma companies; and the healthy occupancy levels. The occupancy levels improved to around ~98% of the leasable area as on November 2020, from 67% of the leasable area, at the time of acquisition of assets by MNTIPL in October 2016. The rent escalation for all the tenants during current financial year have been timely and there has been no vacancy and rental re-negotiations due to covid-19 pandemic. The rating further draws comfort from the escrow mechanism and the presence of liquidity support in the form of debt servicing reserve account (DSRA) equivalent to one-quarter of principal and interest payments. The subordinated nature of compulsorily convertible debentures (CCDs), with no interest payment during the tenure of the loan, provides additional comfort.

The company is presently constructing additional space viz. Building 3600 at a total cost of Rs. 105.0 crore and a leasable area of 0.18 mn sqft. The project cost will be funded by debt of Rs. 55 crore and remaining through internal accruals and equity infusion from promoters. The project is under nascent stages of construction and is expected to be completed by September 2021. As on date, there are no lease tie-ups<sup>1</sup> for the under-construction building and project is exposed to funding risk as debt is yet to be tied-up. The rating remains constrained by MNTIPL's high tenant concentration, with the top-five tenants occupying 83% of the total leased area across all assets. This exposes the company to high market risks in case any of these tenants vacate their areas. Nonetheless, ICRA draws comfort from the long-term lease agreements with reputed clients and the high initial investment from tenants, which increases client stickiness. One of the major tenants which occupies around 13% of the space is expected to vacate the premises once lease expires in Feb-2022. The company is in discussion with a few prospective tenants to occupy the space once it is vacated in Feb-2022. The rating also factors in the vulnerability of debt coverage ratios to factors such as changes in interest rates or reduction in occupancy levels.

The Stable outlook reflects that MNTIPL will continue to benefit from healthy occupancy levels, reputed tenant profile with long-term lease agreements and attractive location of its assets

<sup>1</sup> The company is in discussion with prospective clients for around 75,000-80,000 sqft area in Building 3600

## Key rating drivers and their description

### Credit strengths

**Attractive property location and healthy occupancy** – MNTIPL benefit from attractive location in Genome valley, Shamirpet, Hyderabad, with built-to-suite R&D facilities, including effluent treatment plants and healthy occupancy levels, which improved to ~98% of the leasable area as on November 2020 from 67% at the time of acquisition of assets by MNTIPL in October 2016. The rent escalation for all the tenants during current financial year have been timely and there has been no vacancy and rental re-negotiations due to covid-19 pandemic.

**Reputed tenant profile and long-term lease agreements** – The company has reputed tenant profile viz. Novartis Healthcare Private Limited, Vivo Biotech Limited, GlaxoSmithKline Consumer Healthcare Limited, Ashland India Private Limited. Additionally, it boasts of long-term lease agreements with reputed domestic and international pharma companies.

**Presence of structural features provides credit support** - The rating draws comfort from the escrow mechanism and the presence of liquidity support in the form of DSRA equivalent to one-quarter of principal and interest payments. The subordinated nature of CCDs, with no interest payment during the tenure of the loan, provides additional comfort.

### Credit challenges

**Under-construction project is in nascent stages of construction** – The company is presently constructing additional space viz. Building 3600 at a total cost of Rs. 105.0 crore and a leasable area of 0.18 mn sqft. The project is under nascent stages of construction and is expected to be completed by September 2021. As on date, there are no lease tie-ups for the under-construction building and project is exposed to funding risk as debt is yet to be tied-up.

**High tenant concentration and vacancy risks**– MNTIPL's has high tenant concentration, with the top-five tenants occupying 83% of the total leased area across all assets. This exposes the company to high market risks in case any of these tenants vacate their areas. Nonetheless, ICRA draws comfort from the long-term lease agreements with reputed clients and the high initial investment from tenants, which increases client stickiness. One of the major tenants which occupies around 13% of the space is expected to vacate the premises once lease expires in Feb-2022. The company is in discussion with a few prospective tenants to occupy the space once it is vacated in Feb-2022.

**Exposure to change in interest rates and reduction in occupancy levels** – The debt coverage ratios are vulnerable to factors such as changes in interest rates or reduction in occupancy levels. Nevertheless, ICRA draws comfort from MNTIPL's tenant profile, which mainly comprises large pharma companies where client stickiness is high.

### Liquidity position: Adequate

The liquidity profile of the company is adequate, with unencumbered cash balance of Rs. 14.6 crore as on September 30, 2020 and DSRA equivalent to one quarter debt obligation, of Rs. 8.5 crore maintained in the form of fixed deposit. The company has a debt repayment obligation of Rs. 14.6 crore in FY2021 and Rs. 16.1 crore in FY2022, which is expected to be comfortably serviced through cash flow from operations. The company is expected to incur capex of around Rs. 105.0 crore during FY2021 and FY2022 which is expected to be funded through debt of Rs. 55 crore and remaining through equity and internal accruals.

### Rating sensitivities

**Positive factors** – ICRA could upgrade MNTIPL's rating upon timely completion of the under-construction project with lease tie-ups at remunerative rates and timely replacement of tenant who is expected to vacate by February 2022.

**Negative factors** – Downward pressure on the rating might emerge if the occupancy level is lower than expected; or the company contracts additional debt or is not able to implement timely rental escalation or an elongation of the receivable cycle. Specific credit metrics include cumulative DSCR of less than 1.05 times on a sustained basis.

#### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Debt Backed by Lease Rentals</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MNTIPL. As on March 31, 2020, the company has one subsidiary, which is enlisted in Annexure-2.

## About the company

MN Takshila Industries Private Limited (MNTIPL) is one of the three wholly owned operational subsidiary of LC Core Opportunities Fund (LCCOF). MNTIPL has three operational assets (Building 1800, Building 2700 and MN iHub) in Genome Valley, Shamirpet, Hyderabad and one asset (Building 360) in Pragnapur Village, which is 20 km further north to Genome Valley along the Karimnagar Highway. MNTIPL has a total leasable area of 0.42 mn sq. ft in Genome Valley and Pragnapur. The company is presently developing Building 3600 adjacent to Building 2700 at Genome Valley with a total leasable area of 0.18 mn sq. ft. Genome Valley cluster is an established bio-tech and pharma R&D hub.

## Key financial indicators

MNTIPL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	42.9	54.0
PAT (Rs. crore)	-9.7	-1.3
OPBDIT/OI (%)	62.8%	72.5%
PAT/OI (%)	-22.6%	-2.5%
Total Outside Liabilities/Tangible Net Worth (times)	22.4	23.9
Total Debt/OPBDIT (times)	7.8	5.3
Interest Coverage (times)	1.0	1.3

Source: MNTIPL, ICRA Research; 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 (FY2021)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
					Mar 5, 2021	May 22, 2020	Feb 18, 2020	Sep 26, 2019		
1	Fund-based LRD loan	Long-term	185.88	185.88	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-& placed under watch with developing implications	[ICRA]BBB-(Stable)	-	-

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

*Annexure-1: Instrument details*

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	LRD Loan	December 2019	9.5%	April 2032	185.88	[ICRA]BBB- (Stable)

Source: MNTIPL

*Annexure-2: List of entities considered for consolidated analysis*

Company Name	Ownership	Consolidation Approach
MN Life Science Centre (Pragnapur) Pvt. Ltd.	100.00%	Full Consolidation

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