

July 02, 2021

Volumnus Developers Private Limited: Rating assigned for LRD loan facility and reaffirmed for the CF loan facility; outlook revised to Positive from Stable for the CF loan facility

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan (Lease Rental Discounting-LRD)	-	130.00	[ICRA]A(Stable); Assigned
Long Term – Interchangeable – sublimit of LRD	-	(130.00)	[ICRA]A(Stable); Assigned
Term Loan (Construction Finance-CF)	100.00	150.00	[ICRA]BBB+(Positive); Reaffirmed; Outlook revised to Positive from Stable
Long Term – Interchangeable – sublimit of CF	(60.00)	(110.00)	[ICRA]BBB+(Positive); Reaffirmed; Outlook revised to Positive from Stable
Total	100.00	280.00	

*Instrument details are provided in Annexure-1

Rationale

The rating assigned to the lease rental discounting (LRD) facility factors in the stability and healthy coverage of rentals from Phase I of the industrial and logistics park at Oragadam, Chennai, which is developed by Volumnus Developers Private Limited (VDPL / the company). Phase I development is 100% leased through a long-term lease agreement, which provides high cash flow visibility. The ringfenced structure of the LRD debt, which prevents co-mingling with other cash flow streams, also supports the rating.

The Stable outlook on the LRD rating reflects ICRA's opinion that the credit profile of the rated facility will be supported by the stable cash flows from the long-term lease agreements.

The Positive outlook on the CF facility outstanding for Phase II factors in the leasing progress in the phase—54% of the area was leased last year and the rentals have commenced from 7% of the area. Expansion options are also available with the tenants for a further 28% of the leasable area, which if exercised, increases the likelihood of early conversion of the CF loan to a lease rental discounting facility.

The ratings for VDPL continue to favorably factor in the strong business profile and the established track record of the Hiranandani Group and the Blackstone Group in the real estate space in India. The industrial and logistics park constructed by VDPL is spread over an area of 114 acres and is being developed in three phases. It is well located and enjoys good access to road infrastructure as well as proximity to a large industrial set up. Phase I was completed on December 31, 2020, earlier than the DCCO of June 30, 2021, and at a lower-than-budgeted cost with timely commencement of the rentals from January 2021. Phase II of the project is under construction with entire funding, including equity contribution, fully tied up. Further, comfort is drawn from the presence of a debt service reserve account (DSRA) mechanism, equivalent to three months of debt servicing obligations, limited to interest during the tenure of CF loan and extended to include principal obligations throughout the tenure for the LRD facility.

The rating, however, is constrained by the project's exposure to execution risks as about 65% of the total project cost for Phase II is pending to be incurred as on March 2021. Moreover, future phases are also planned. Market risks also exist for Phase II,

with 54% area pre-leased as on date. Nonetheless, ICRA notes that the registered lease agreements with the tenants provide the option to expand space, which, if exercised, will take the total leased area for Phase II to around 80%. Further, the company is also exposed to tenant concentration risk as 87% of the total leasable area is likely to be leased to three tenants. The company is also exposed to geographical and asset concentration risks, which are inherent in companies with single projects.

Key rating drivers and their description

Credit strengths

Strong track record and business profile of sponsors – VDPL is a subsidiary of Juturna Developers Private Limited (JDPL), which is jointly owned by Cyprus Realtors LLP and BREP Asia II India Holding Co I (NQ) Pte. Ltd. Cyprus Realtors LLP is promoted by Mr. Niranjana and Mrs. Kamal Hiranandani (of the Hiranandani Group), while BREP Asia II India Holding Co I (NQ) Pte. Ltd is sponsored by the Blackstone Group. The Hiranandani Group has over three decades of experience in residential, commercial and retail development. The Blackstone group is one of the largest real estate private equity players in the world. It is also one of the major logistics and industrial park players globally.

Favourable location of the asset - The project site is at Oragadam, Chennai, in Tamil Nadu. The project is located at less than 8 km from NH32 Trichy-Chennai highway (Grand Southern Trunk Road-GST Road) and 16 km from NH48 Chennai-Bangalore Highway. Sriperumbudur Industrial Park, Oragadam Industrial Park and Maraimalai Nagar Industrial Park are in proximity to the subject site. Oragadam is also among the largest automobile manufacturing hubs in South Asia.

Early completion of Phase I; structural features of LRD debt with healthy projected debt coverage levels – VDPL completed Phase I of the project at lower-than-budgeted cost and handed over the same to the tenant six months ahead of the DCCO. Rentals commenced from January 2021. The company refinanced the outstanding CF loan of ~Rs. 75 crore, with an LRD loan of Rs. 130 crore, at a reasonable debt/rent income ratio of 5.5 times. The long-term lease agreement with reputed tenant enhances the visibility and stability of cash flows available to service the LRD facility. The ringfenced structure of the LRD debt, which prevents co-mingling with other cash flow streams, also supports the rating. The overall debt coverage levels across the existing and future LRD loans is expected to remain healthy.

Funding risks mitigated for ongoing Phase II - Phase II construction commenced in September, 2020, with Rs. 150 crore funded by debt, and the balance being funded by promoters contribution and internal accruals. The funding risk is largely mitigated as higher-than-budgeted equity has been already infused, and debt tie-up is in place.

Credit challenges

Exposed to moderate project execution and marketing risks – Phase II is at an intermediate stage of execution, with 35% of the cost incurred as on March 2021. VDPL targets to complete the construction of a total of 54% of the planned units in FY2022, in line with the lease agreements signed. ICRA notes that the registered lease agreements with the tenants provide the option to expand space, which, if materialised, will take the total leased area for phase II to around 80%. Conversion of the same and tie up of the balance area in a timely manner at adequate rental rates remains a key rating monitorable. With a DCCO of September 30, 2023, the company has sufficient time to complete the construction of the balance area of phase II; although, VDPL will continue to remain exposed to moderate execution risks in the interim for Phase II, and for future expansion going forward.

Tenant concentration risks – The company is exposed to tenant concentration risk as 87% of the total leasable area is likely to be leased to three tenants. Any material weakening of the tenant’s credit risk profile, delays in rental payments or vacancy may impact the cash flow position of the company. However, the long lease tenure of ten years with adequate lock-in period mitigates the vacancy risk to an extent. Additionally, the tenant of Phase I would be required to pay a special tenant improvement re-imbursement in case of early exit, thereby safeguarding the capex incurred by the company on the facility’s customisation.

Geographical and asset concentration risk - Since VDPL is a single project SPV, it is exposed to geographical and asset concentration risks, which are inherent in companies with single projects.

Liquidity position: Adequate

The company’s liquidity position is adequate with free cash and liquid investments and significant undrawn CF limits as on March 31, 2021, which are expected to remain adequate for the purpose of the construction of the remaining portion of Phase II. Although the construction finance facility for Phase II has a bullet repayment in September 2023, the loan is expected to be refinanced into an LRD loan within FY2022. The LRD facility requires DSRA of three months’ interest plus principal obligation to be maintained and CF facility requires DSRA of three months’ interest, which underpins the liquidity profile. Overall, the debt coverage level across the existing and future LRD loans is expected to remain healthy.

Rating sensitivities

Positive factors:

ICRA could upgrade the rating for the CF facility if the company is able to complete the Phase II of the project on time and without any major cost overruns, with timely lease tie-ups and handover to the clients. Continued increase in scale of operations, along with an improvement in DSCR to 1.4x on sustained basis, could result in a rating upgrade for the LRD facility.

Negative factors:

Cost overruns or unforeseen delays in the completion of Phase II of the project and/or lack of timely lease rental commencement could exert negative pressure on VDPL's ratings. In addition, the decline in occupancy or considerable delay in lease tie ups and/or lower-than-expected rentals resulting in deterioration in debt coverage metrics, or material increase in leverage against existing phases to support investments in upcoming phases may warrant a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

VDPL is developing an industrial and logistics park at Oragadam in Tamil Nadu. VDPL is a subsidiary of Juturna Developers Private Limited, which is a 50:50 joint venture between Cyprus Realtors LLP and BREP Asia II India Holding Co I (NQ) Pte. Ltd. Cyprus Realtors LLP is promoted by Mr. Niranjana Hiranandani and Mrs. Kamal Hiranandani (of the Hiranandani Group) while BREP Asia II India Holding Co I (NQ) Pte. Ltd is sponsored by the Blackstone Group. The total land under the entity is spread over 114 acres. The company completed the construction of Phase I of the project as on December 31, 2020 and the rentals commenced from January 01, 2021. VDPL is currently carrying out the construction of Phase II of Hiranandani Greenbase Oragadam, Tamil Nadu project. The balance land would be used towards the development of phase III of the project. The scheduled commercial operation date for Phase II of the project is September 30, 2023.

Key financial indicators: Not applicable being a project company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on June 15, 2021	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1	Term Loan LRD	Long-term	130.00	130.00	[ICRA]A(Stable)	-	-	-
2	FCTL (S/L of LRD)	Long-term	(130.00)		[ICRA]A(Stable);	-		-
3	Term Loan - CF	Long-term	150.00	35.00	[ICRA]BBB+(Positive)	[ICRA]BBB+(Stable)		-
4	FCTL (S/L of CF)	Long-term	(75.00)		[ICRA]BBB+(Positive)	[ICRA]BBB+(Stable)	-	-
5	Letter of Credit (S/L of CF)	Long-term	(25.00)		[ICRA]BBB+(Positive)	[ICRA]BBB+(Stable)		
6	Bank Guarantee (S/L of CF)	Long-term	(10.00)		[ICRA]BBB+(Positive)	[ICRA]BBB+(Stable)		

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loan (Construction Finance-CF)	Simple
Term Loan (Lease Rental Discounting-LRD)	Simple
FCTL (S/L of LRD)	Simple
FCTL (S/L of CF)	Simple
Letter of Credit (S/L of CF)	Very Simple
Bank Guarantee (S/L of CF)	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, is available on ICRA's website: www.icra.in

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	Term Loan LRD	March 2021		March 2023	130.00	[ICRA]A (Stable)
NA	FCTL (S/L of LRD)				(130.00)	[ICRA]A (Stable)
NA	Term Loan – CF	March 2021		September 2023	150.00	[ICRA]BBB+ (Positive)
NA	FCTL (S/L of CF)				(75.00)	[ICRA]BBB+ (Positive)
NA	Letter of Credit (S/L of CF)				(25.00)	[ICRA]BBB+ (Positive)
NA	Bank Guarantee (S/L of CF)				(10.00)	[ICRA]BBB+ (Positive)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company name	Ownership	Consolidation Approach
Not Applicable		

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