

June 24, 2021

## One International Center Private Limited (erstwhile Indiabulls Real Estate Company Private Limited): Rating reaffirmed; Outlook revised to ‘Negative’ from ‘Stable’; rating assigned for NCD programme

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-fund based	2250.0	2250.0	[ICRA]A-, reaffirmed Outlook revised to Negative from Stable
Long term non-fund based	14.0	14.0	[ICRA]A-, reaffirmed Outlook revised to Negative from Stable
Long term- unallocated	181.0	181.0	[ICRA]A-, reaffirmed Outlook revised to Negative from Stable
Non-Convertible Debentures	725.0	725.0	[ICRA]A-, reaffirmed/assigned; Outlook revised to Negative from Stable
Non-Convertible Debentures	-	473.0	[ICRA]A- (Negative); assigned
<b>Total</b>	<b>3,170.0</b>	<b>3,643.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in rating outlook reflects the substantial decline in occupancy in One International Centre Private Limited (OICPL’s) sole commercial property, One International Centre (OIC, Lower Parel, Mumbai; leasable area of 16.7 lakh sq. ft.), during the FY2021, as compared to FY2020, as major tenants had done restructuring in their respective businesses leading to vacancy. This has led to deterioration in debt coverage and leverage metrics. Moreover, there are discussion with an existing tenant, who has partially vacated the property, but continues to occupy a significant part of the current leased area, regarding the intention to vacate additional area as well, which would put further pressure on the occupancy levels and cash flows going forward. Comfort, however, is drawn from OICPL’s adequate liquidity, as reflected in cash and liquid investments of Rs. 180 crore and debt service reserve account (DSRA) of Rs. 61 crore as on March 31, 2021, as well as its strong sponsor profile, i.e. – entities owned or managed by The Blackstone Group Inc. (the Sponsor), which holds 100% in OICPL through its affiliates.

The rating continues to factor in the strong management team and track record of Sponsor in India. Sponsor has a track record of around eight years of developing and operating commercial real estate assets in India, and its current portfolio spans ~690 lakh sq. ft. ICRA expects the sponsor to support OICPL in the event of any cash flow requirement. ICRA also notes that the company plans to refinance its existing NCD of Rs. 725 crore, partly through a new NCD of approximately Rs. 473 crore and partly through internal accruals i.e. receipt of loans and advances of approximately Rs. 375 crore. The new NCD of Rs. 473 crore is proposed with a term of 5 years with quarterly interest payments. No additional leveraging is expected on the operational property. Thus, the reduction in debt and extended maturity as a result of the refinancing partly offsets the increase in leverage due to the reduction in occupancy. The rating also factors in attractive location of the commercial property, OIC, in Lower Parel which is a well-developed commercial location and well connected through rail and road network.

ICRA further notes that the company is constructing a fourth tower - T4 - in the same premises with total leasable area of approx 9 lakh sq. ft. T4 is currently at advanced stage of construction with only 7% of the project cost pending as on March 2021. The Company has adequate funds to complete the construction, hence no additional construction finance is expected to be availed by the company for the project. Extent of leveraging against rental income from T4 once it becomes operational and its impact on coverage indicators will remain a key monitorable going forward. Additionally, the company also remains exposed to market risks for the upcoming T4, wherein the pre-leasing remains minimal. Due to the outbreak of Covid-19 and the resultant work-from-home practices followed by most large corporates, ramp-up of leasing for sub-optimally occupied and

recently completed projects is expected to get delayed. Furthermore, there may be challenges in affecting escalations on existing leases as well. There is a possibility of rent renegotiations on the existing leases as well. The company also remains exposed to vacancy risk with a considerable portion of existing leases coming up for renewal in the current year and the low balance lease term for most of the existing leases. The ratings are also constrained due to high tenant concentration risk with top five tenants contributing to ~64% of total rental revenue.

## Key rating drivers and their description

### Credit strengths

**Strong promotor group with established track record lends financial flexibility** – The company is 100% owned by the Sponsor, which is India's leading office landlord with over 690 lakh sq. ft. of offices across Bangalore, Pune, Hyderabad, Mumbai, NCR and Chennai. The Sponsor has established leasing relationships with several blue-chip multinational companies as well as Indian corporates. The long track record of the Sponsor in real estate sector and large, diverse portfolio in retail and commercial real estate business in India provides comfort and allows it to command high financial flexibility. ICRA also expects the Sponsor to support OICPL in the event of any cash flow requirement.

**Favourable location of the property** – OIC is located in Lower Parel, Mumbai, adjacent to the 100 ft wide arterial road, Senapati Bapat Marg (Tulsi Pipeline Road). It is also centrally located between Nariman Point and the BKC area. It is well connected through road and rail network. The project is 0.5 kilometres from Elphinstone Road railway station (Western Railways line) and about 0.5 Km from Parel station (Central Railways line). The Western Express Highway is about 4 Km from the project site. The project also has proximity to many well-known hotels and premium residential developments.

**Presence of structural features such as DSRA and escrow mechanism for LRD** – The company is required to maintain DSRA reserve equivalent to 3 months' LRD instalments. The receivables from tower 1, 2 and 3 are routed through escrow mechanism which is first utilized to service the LRD debt taken. Presence of DSRA coupled with adequate liquidity profile of the company underpins the rating.

### Credit challenges

**Substantial decline in occupancy in FY2021; exposure to further vacancy risks** – OIC has witnessed substantial decline in occupancy in One International Centre Private Limited (OICPL's) sole commercial property, in FY 2021, as compared to FY 2020, as major tenants had done restructuring in their respective businesses leading to vacancy. Moreover, there are discussions with an existing tenant, who has partially vacated the property, but continues to occupy a significant part of the current leased area, regarding intention to vacate additional area as well, which would put further pressure on the occupancy levels and cash flows. Further, a considerable portion of the existing leases coming up for renewal in the current year and the low balance lease term for most of the existing leases, vacancy risks are heightened.

**Deterioration in coverage and leverage indicators due to decline in occupancy; available liquid balances and partial repayment of NCD, however, provide comfort** – Debt coverage and leverage metrics deteriorated due to the decline in occupancy. Comfort, however, is drawn from OICPL's adequate liquidity, as reflected in cash and liquid investments of Rs. 180 crore and debt service reserve account (DSRA) of Rs. 61 crore as on March 31, 2021, as well as its strong sponsor profile.

ICRA also notes that the company plans to refinance its existing NCD of Rs. 725 crore, partly through a new NCD of approximately Rs. 473 crore and partly through internal accruals i.e. receipt of loans and advances of approximately Rs. 375 crore. The new NCD of Rs. 473 crore is proposed with a term of 5 years with quarterly interest payments. No additional leveraging is expected on the operational property. Thus, the reduction in debt and extended maturity as a result of the refinancing partly offsets the increase in leverage due to the reduction in occupancy.

**Exposed to tenant concentration risk** – The tenant concentration risk is high for OIC with top five tenants contributing to 64% of total rental revenue.

**Market risks for upcoming tower** –The company also remains exposed to market risks for the upcoming tower-4, wherein the pre-leasing remains minimal, despite the asset being at an advanced stage of construction. Due to the outbreak of Covid-19 and the resultant work-from-home practices followed by most large corporates, ramp-up of leasing for sub-optimally occupied and recently completed projects is expected to get delayed.

## Liquidity position: Adequate

The company has adequate liquidity as reflected in cash and liquid investments of Rs. 180 crore and DSRA balances of Rs. 61 crore as on March 31, 2021. OICPL’s average monthly interest and principal repayment obligations for the LRD loans are Rs. 18.7 crore in FY2022. The liquidity is expected to remain adequate over the next one year in case of any shortfall in the operational surplus given low occupancy level at present. Moreover, ICRA expects the Sponsor to support OICPL in the event of any further cash flow requirement.

## Rating sensitivities

**Positive factors** – An upgrade is unlikely in the near term. ICRA could revise the outlook to Stable if the company is able to increase the occupancy of existing property and realise scheduled escalations in a timely and sustainable manner which will lead to improvement in coverage ratios. Specific metrics that may result in rating upgrade included improvement in average DSCR above 1.25 times for total debt on the balance sheet on a sustained basis. Ramp up in leasing tie-ups for the balance area of T4 at adequate rental rates would also be credit positive.

**Negative factors** – Inability to gradually improve the occupancy level or material decline in rental rates for new lease tie-ups for a sizeable area may warrant a rating downgrade.

## 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	Standalone

## About the company

OICPL, earlier an Indiabulls Group company was incorporated in May 2005. In 2006, OICPL acquired 8 acres of the Elphinstone Mills Land in Mumbai through an auction conducted by National Textile Corporation. OICPL holds freehold title to the land and had received approval from the State of Maharashtra to establish an IT Park at the project site. In Q4 FY2018, Indiabulls had divested 50% stake in OICPL to Sponsor and then another 50% in September 2019.

OICPL owns and manages ‘One International Center’ at the Elphinstone Mills land in Lower Parel, Mumbai with a total leasable area of 16.73 lakh sq. ft. comprising of Tower 1, Tower 2 and Tower 3. The company is currently carrying out the construction of Tower 4 with total leasable area of 8.89 lakh sq. ft.

## Key financial indicators (audited)

MBPPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	331.1	332.1
PAT (Rs. crore)	121.5	124.9
OPBDIT/OI (%)	84.7%	82.5%
PAT/OI (%)	36.7%	37.6%
Total Outside Liabilities/Tangible Net Worth (times)	3.7	3.4
Total Debt/OPBDIT (times)	8.8	10.8
Interest Coverage (times)	1.8	1.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Annual Report and Company, ICRA research

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 as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020			Date & Rating in FY2019
							June 24, 2021	May 07, 2020	17-Feb-2020	
1	Fund Based	Long Term	2250.0	2175	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-
2	Non-fund Based	Long Term	14.0	-	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-
3	Unallocated	Long Term	181.0	-	[ICRA]A-(Negative)	[ICRA]A-(Stable)	-	-	-	-
4	NCD	Long Term	725.0	725	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	Provisional [ICRA]A-(Stable)	-	-
5	NCD*	Long Term	473.0	-	[ICRA]A-(Negative)					

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term-fund based	Moderately Complex
Long term non-fund based	Very Simple
Long term- unallocated	Not Applicable
Non-Convertible Debentures	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 analyzing 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](http://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-I	Dec 2019	NA	FY2035	2250.0	[ICRA]A- (Negative)
NA	Non-Fund Based Limit	NA	NA	NA	14.0	[ICRA]A- (Negative)
NA	NCD*	NA	NA	NA	473.0	[ICRA]A- (Negative)
INE065I07015	NCD	Jan-20	11%	FY2023	725.0	[ICRA]A- (Negative)
NA	Unallocated Limit	NA	NA	NA	181.0	[ICRA]A- (Negative)

**\*To be placed**

**Source:** Company

**Annexure-2: List of entities considered for consolidated analysis: Not Applicable**

## ANALYST CONTACTS

**Shubham Jain**

+124-4545 306

[shubhamj@icraindia.com](mailto:shubhamj@icraindia.com)

**Mathew Kurian Eranat**

+80-4332 6415

[mathew.eranat@icraindia.com](mailto:mathew.eranat@icraindia.com)

**Mahi Agarwal**

+33-7150 1106

[mahi.agarwal@icraindia.com](mailto:mahi.agarwal@icraindia.com)

**Rashmi Agarwal**

+124-4545 871

[rashmi.agarwal@icraindia.com](mailto:rashmi.agarwal@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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