August 06, 2021

Milestone Buildcon Private Limited: Ratings reaffirmed; Ratings withdrawn for Rs. 414.0 crore LRD facility

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund-based TL – LRD 1	240.00	240.00	Ratings reaffirmed at [ICRA]BBB-(Stable)
Fund-based TL – LRD 2	414.00	-	Ratings reaffirmed at [ICRA]BBB-(Stable) and withdrawn
Fund-based TL – Term Loan	465.00	465.00	Ratings reaffirmed at [ICRA]BBB-(Stable)
Unallocated	10.00	10.00	Ratings reaffirmed at [ICRA]BBB-(Stable)
Total	**1129.00**	**715.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account the company's adequate occupancy levels in its completed phases 1 and 2 of the IT SEZ development, and its strong tenant profile comprising tenants like IBM, Infosys, Synechron Technologies and Maersk Global. The company has been able to renew majority of the leases in Phase-1 which had fallen due for renewal in the last one year and has witnessed improved occupancy level in Phase-2 over the last 15 months. ICRA also notes that the lease rental discounting loans (LRD) loans of MBPL have an escrow mechanism along with debt service reserve accounts (DSRA) ranging from 1-month to 3- month of principal and interest obligations, which supports liquidity in case of any interim cashflow mismatches. The ratings derive further comfort from the synergistic benefits derived by MBPL's IT SEZ development from being part of a larger integrated township (Bhartiya City) being developed by MBPL's parent.

The ratings remain constrained by the company's modest financial risk profile, characterised by high leverage and moderate debt coverage metrics. The company's LRD debt (including balance undrawn debt) is expected to be around 9.6 times of the annualised rentals from Phases 1 and 2, based on current occupancy levels. Due to the high leverage, the debt coverage metrics are also moderate and remain vulnerable to any changes in interest rates, TDS rates or dip in occupancy levels in the buildings. The rating is also constrained by the exposure to moderate lease renewal risk and the high client concentration in Phases 1 and 2. Majority of the leases in Phase 2 are falling due for renewal in FY2024-25. The client concentration remains high as more than 80% of the area in Phase-1 and more than 70% of the area in Phase-2 is leased out to top-three tenants in each phase. Ongoing development of Phase 3 exposes the company to reasonable execution and market risk. Nevertheless, demonstrated execution and leasing track record in the first two phases provides comfort. In addition, the company is in advanced discussions with various prospective tenants to lease out the available space in Phase 3, which are expected to conclude into agreements in the near to medium term.

The stable outlook reflects ICRA's expectation that MBPL will continue to benefit from the group's execution capabilities and from being part of the integrated township of Bhartiya City, which enhances MBPL's marketability. Any adverse impact of the ongoing pandemic on the current occupancy levels of the completed assets and/or future leasing tie-ups for the under-construction phase, would a key monitorable.

ICRA is withdrawing the rating assigned to the earlier Rs. 414.0-crore LRD loan availed against Phase-2 rentals, based on the no dues certificate received from the lenders, in accordance with ICRA's policy on withdrawal of ratings.

Key rating drivers and their description

Credit strengths

Adequate occupancy in completed phases and strong tenant profile – MBPL has adequate occupancy levels in such completed phases, and its strong tenant profile comprising tenants like IBM, Infosys, Synechron Technologies and Maersk Global. Competitive rent rates and the social infrastructure offered being part of the integrated township of Bhartiya City, continue to be the key drivers for retaining existing tenants and attracting new prospective clients. The company has renewed majority of the leases in Phase-1, which had fallen due in the last one year or so. The occupancy level in Phase-2 has improved over the last 15 months, with majority of the lease agreements having lock-in period of five years. This lends reasonable visibility to steady rental inflows over the near-to-medium term.

Escrow mechanism in place with additional comfort in the form of DSRA – The lease rental discounting (LRD) loan has an escrow mechanism which ensures ring-fencing of rental inflows and prioritises debt servicing before any other utilisation. In addition, the company also maintains debt service reserve accounts (DSRA) equivalent to one month and three months' EMI for the different lease rental discounting loans.

Demonstrated project execution track record along with funding tie-up for Phase-3 – The rating favourably factors in MBPL's demonstrated track record of timely completion of the first two phases of the IT SEZ development. The pending funding requirements in the ongoing third phase will be adequately covered by the undrawn debt lines and free cash balances available.

Credit challenges

High leverage results in moderate debt coverage metrics – The ratings remain constrained by the company's modest financial risk profile, characterised by high leverage and moderate debt coverage metrics. The company's LRD debt (including balance undrawn debt) is expected to be around 9.6 times of the annualised rentals from Phases 1 and 2, based on current occupancy levels. Due to the high leverage, the debt coverage metrics are also moderate and remain vulnerable to any changes in interest rates, TDS rates or dip in occupancy levels in the buildings.

Lease renewal risk and high client concentration – The company is exposed to moderate lease renewal risk with majority of the leases in Phase 2 falling due for renewal in FY2024-25. The risk is further heightened by the high client concentration exposure, wherein more than 80% of the area in Phase-1 and more than 70% of the area in Phase-2 is leased out to top-three tenants in each phase.

Exposure to moderate execution and marketing risks in Phase 3 – The ongoing development of Phase 3 exposes the company to reasonable execution and market risk. The company is currently engaging with prospective tenants for lease tie-ups in this phase. Advance discussions are underway for leasing close to 50% of the available space, mitigating the market risks associated with the phase to some extent. Nevertheless, timely execution of the final lease agreements and commencement of rent income will be critical for refinancing of the term loan availed for part-financing Phase 3. In addition, any sustained impact of the pandemic on the leasing market remains a key monitorable.

Liquidity position: Adequate

MBPL's rental collection efficiency has remained healthy over the last 12-15 months, despite the outbreak of Covid-19 pandemic. Nevertheless, the company's debt coverage metrics are expected to remain modest given the high leverage levels. The liquidity is expected to remain supported by the escrowing of rental inflows and the presence of adequate DSRA and cash reserves. The company has sufficient undrawn debt limits available for funding the balance ongoing project cost.

Rating sensitivities

Positive factors – Timely execution and leasing of the ongoing phase (Phase-3) would be critical for improvement in the credit profile. Specific credit metrics leading to an upgrade in Milestone's rating could be DSCR remaining more than 1.15 times on a sustained basis.

Negative factors – Negative pressure on Milestone's rating could arise if there is any delay in the completion or adequate leasing of ongoing phase-3 or higher leverage than anticipated. Any drop in the occupancy levels of the completed phases or higher than anticipated debt availed could also have a negative impact on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Rating approach –Implicit support from parent or group Policy on Withdrawal of Credit Ratings
Parent/Group Support	Parent/Group Company: Bhartiya Urban Private Limited (BUPL, rated [ICRA]BBB (Negative))[1]
Consolidation/Standalone	The ratings are based on the standalone financials of Milestone Buildcon Private Limited.

About the company

Incorporated in November 2005, Milestone Buildcon Private Limited (MBPL) is a wholly-owned subsidiary of Bhartiya Urban Private Limited (BUPL). MBPL is developing an IT SEZ (Information Technology- Special Economic Zone) across multiple phases at Bhartiya City, an integrated township project comprising residential, commercial, retail, hospitality and healthcare components at Thanisandra Road in North Bengaluru (Karnataka). In FY2021, MBPL reported an operating income of Rs. 77.6 crore and a net loss of Rs. 13.4 crore.

Key financial indicators

MBPL Standalone	FY2020 audited	FY2021 provisional
Operating Income (Rs. crore)	72.1	77.6
PAT (Rs. crore)	(2.4)	(13.4)
OPBDIT/OI (%)	90.8%	81.0%
PAT/OI (%)	-3.3%	-17.2%
Total Outside Liabilities/Tangible Net Worth (times)	27.4	63.6
Total Debt/OPBDIT (times)	11.1	14.8
Interest Coverage (times)	1.1	0.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Note: Amount in Rs. crore; All calculations are as per ICRA research

[1] Link for latest rationale.

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2022)</th><th colspan="3">Chronology of Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding as of Mar 31, 2021 (Rs. crore)</th><th>Date & Rating in</th><th>Date & Rating in FY2021</th><th>Date & Rating in FY2020</th><th>Date & Rating in FY2019</th></tr>
<tr><th>06-Aug-2021</th><th>30-Nov-2020</th><th>27-Feb-2020</th><th>30-Nov-2018</th></tr>
<tr><td>1</td><td>Fund based Facilities – LRD</td><td>Long-term</td><td>240.0</td><td rowspan="2">704.0</td><td>[ICRA]BBB- (Stable)</td><td>[ICRA]BBB- (Stable)</td><td>[ICRA]BBB- (Stable)</td><td>[ICRA]BBB-(SO) (Stable)</td></tr>
<tr><td>2</td><td>Fund based Facilities – LRD</td><td>Long-term</td><td>414.0</td><td>[ICRA]BBB- (Stable); withdrawn</td><td>[ICRA]BBB- (Stable)</td><td>[ICRA]BBB- (Stable)</td><td>[ICRA]BBB-(SO) (Stable)</td></tr>
<tr><td>3</td><td>Fund based Facilities – Term Loan</td><td>Long-term</td><td>465.0</td><td>246.0</td><td>[ICRA]BBB- (Stable)</td><td>[ICRA]BBB- (Stable)</td><td>[ICRA]BBB- (Stable)</td><td>[ICRA]BB+ (Stable)</td></tr>
<tr><td>4</td><td>Unallocated</td><td>Long-term</td><td>10.0</td><td>-</td><td>[ICRA]BBB- (Stable)</td><td>[ICRA]BBB- (Stable)</td><td>-</td><td>-</td></tr>
</table>

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – LRD	Simple
Long-term Fund-based – Term Loan	Simple
Long-term – Unallocated	Not Applicable

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

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 – 1	Mar-20	NA	Feb-35	240.0	[ICRA]BBB- (Stable)
NA	LRD - 2	May-19	NA	May-34	414.0	[ICRA]BBB- (Stable); withdrawn
NA	Term Loan – 1	Sep-19	NA	Jun-24	450.0	[ICRA]BBB- (Stable)
NA	Term Loan - 2	Jul-20	NA	Jan-25	15.0	[ICRA]BBB- (Stable)
NA	Unallocated	NA	NA	NA	10.0	[ICRA]BBB- (Stable)

Source: *Company*

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

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About ICRA Limited:

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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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Branches

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