July 15, 2022

LI Industrial Parks Pvt Ltd: Rating reaffirmed and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based – Term Loan	371.00	486.83	[ICRA]BBB (Positive); reaffirmed/assigned
Total	**371.00**	**486.83**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation considers the incremental construction and leasing progress in LI Industrial Parks Private Limited (LIPPL) and the receipt of LRD sanction against the leased blocks in Phase 1 and Phase 2, which provides visibility on conversion of majority of outstanding construction finance. The LRD debt sanctioned is Rs. 294.0 crore, against the current construction finance debt outstanding of Rs. 241.3 crore. However, ICRA also factors in the higher-than-expected leverage in the newly sanctioned LRD loan, which will result in moderate leverage and coverage metrics.

The rating continues to draw comfort from the company's established operational track record under the management of LOGOS India Logistics Venture Fund (LILVF). LIPPL is 100% owned by LILVF, which is managed by LAI Investment Manager Private Limited, part of the LOGOS Property Group. The ESR Group has recently acquired ARA Asset Management, including its subsidiary LOGOS. The ESR Group has an established track record of developing and leasing over 165 msf of logistic and industrial parks globally. The rating also factors in the adequate lease tie-ups in Phase 1 and Phase 2 of the logistics park. The company has signed lease deeds/agreements to lease (ATL) for around 55% of the leasable area in these phases, including 81% of the Phase-1 leasable area and 61% of Phase-2 leasable area. Rents from these blocks are expected to commence in the near term, lending high degree of visibility for conversion of a significant portion of the construction finance debt into lease rental discounting (LRD loans) ahead of the scheduled maturity. The rating also draws comfort from the comfortable moratorium period of more than four years for the rated facilities.

The rating is, however, constrained by the moderate execution risk associated with the ongoing and planned phases of the project. At present, Phase 1 and Phase 2 are in the moderate stages of construction and construction of Phase 3 has recently started, exposing the company to risks arising out of any delay or cost overruns. Around 75% and 41% of the budgeted cost (excluding land and interest during construction) have been incurred in Phase 1 and Phase 2, respectively. Further, around 1% of the budgeted cost (excluding land and IDC) has been incurred in Phase 3 in March 2022. The rating is further constrained by the market risk associated with the pending lease tie-ups. Timely leasing at favourable rates is critical to refinance the construction finance loan at adequate debt coverage metrics. For the sanctioned LRD loans, the debt/rental is in the range of 8-8.5 times and the five-year average DSCR (FY2023-FY2027) is estimated to be around 1.05-1.10 times.

The Positive outlook on the [ICRA]BBB rating reflects ICRA's opinion that LIPPL will continue to benefit from the sponsor profile, which along with the track record of leasing in the property supports its ability to lease and construct the balance blocks in a timely manner ahead of the scheduled debt maturity.

Key rating drivers and their description

Credit strengths

Established track record of sponsor Group - The company is 100% owned by Logos India Logistics Venture Fund (LILVF), which is managed by LAI Investment Manager Private Limited, part of the LOGOS Property Group. The LOGOS Group has a total Asset

Under Management of USD19.9 billion covering 31 ventures across various countries. Further, LOGOS India has developed approximately 3.2 million sft of area and 3.0 million sft of area is under development. LOGOS is a subsidiary of ARA Asset Management Limited, which was recently acquired by the ESR Group. The ESR Group has an established track record of developing and leasing over 165 msf of logistic and industrial parks globally.

Adequate lease tie-ups in Phase 1 and Phase 2 – The company has achieved healthy pre-leasing in Phase 1 and Phase 2 of the logistics park. The company has signed lease deed/agreements to lease (ATL) for around 55% of the leasable area in these phases, including 81% of the Phase-1 leasable area and 61% of the Phase 2-leasable area. Rents from 42% of leasable area from Phase 1 (Block 2 & 3) have started from December 2021 and the rent from other pre-leased blocks are expected to commence in the near term, lending high degree of visibility for conversion of a significant portion of the construction finance debt into lease rental discounting (LRD loans) ahead of the scheduled maturity.

Comfortable loan moratorium partly mitigates refinancing risk – The sanctioned construction finance loans for all the phases have moratorium periods of more than four years, with scheduled date of commencement of commercial operations of March 2025, June 2025 and April 2026 respectively. The balance moratorium period provides adequate buffer for the company to refinance the loan with an LRD facility ahead of the scheduled maturity

Credit challenges

Moderate debt coverage metrics –The leverage of the company is higher-than-expected due to its newly sanctioned loan, which is higher compared to the corresponding construction finance loan, and the top-up is proposed to be used as equity for the ongoing capex. This, along with the lower-than-expected rentals, is likely to result in moderate debt coverage metrics. For the sanctioned LRD loans, the debt/rental is in the range of 8-8.5 times and the five -year average DSCR (FY2023-FY2027) is estimated to be around 1.05-1.10 times.

Execution risk due to moderate stage of implementation – At present, Phase 1 and Phase 2 are in the moderate stages of construction and construction of Phase 3 has recently started, exposing the company to risks arising out of any delay or cost overruns. Around 75% and 41% of the budgeted cost (excluding land and interest during construction) have been incurred in Phase 1 and Phase 2, respectively. Further, around 1% of the budgeted cost (excluding land and IDC) has been incurred in Phase 3 in March 2022. Further, there has been a delay in Phase-2's progress due to damages to Block-D on account of cyclonic storms, which adversely impacted the partially constructed PEB structure and has also affected the earlier pre-leasing tie-up for this block.

Exposure to market risk; increasing competition in industrial warehousing segment – The company is exposed to market risks associated with the pending lease tie-ups, especially in Phase 2 and Phase 3. Despite the lease tie-ups for around 55% of the area in the ongoing phases, timely leasing of the balance area at favourable rates is critical for the company's ability to refinance the construction loan at adequate debt coverage metrics. There has been an increase in competition in the industrial warehousing segment in India, with many incumbent and new entrants expanding their presence across major cities.

Liquidity position: Adequate

The company has sufficient undrawn debt limits available for funding the balance cost of the ongoing phase. The sponsors will also infuse pending equity in line with the project's progress, apart from the top-up debt from the sanctioned LRD. The company maintains a debt service reserve account (DSRA) for the sanctioned LRD covering three months of principal and interest obligations

Rating sensitivities

Positive factors – Timely completion, leasing and rent commencement from a substantial portion of the project, resulting in successful refinancing of corresponding portion of the company's debt into LRD loans and improvement in coverage metrics would be critical factors for an upgrade in the rating.

Negative factors – Pressure on the rating could arise if any delay in execution or adequate leasing of the project impacts the refinancing ability of the company. Higher-than-expected debt levels which weaken coverage metrics could also be a trigger for a 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

LI Industrial Parks Pvt Ltd (LIPPL), established on August 28, 2018, is held by Logos India Logistics Venture Fund. The company is involved in development, leasing and maintenance of warehouse/industrial/logistics parks in India. At present, the company is developing a warehousing park in Luhari (in Jhajjar, Haryana within the NCR region), named 'Logos Luhari Logistics Estate (Logos Luhari)' on a land parcel covering 122.8 acres. The total leasable potential of the entire project, being developed across three phases, is approximately 3.0 mn sqft.

Key financial indicators (audited)

LIIPPL	FY2020	FY2021
Operating Income (Rs. crore)	-	-
PAT (Rs. crore)	(0.4)	(0.9)
OPBDIT/OI (%)	nm	nm
PAT/OI (%)	nm	nm
Total Outside Liabilities/Tangible Net Worth (times)	2.8	4.4
Total Debt/OPBDIT (times)	nm	nm
Interest Coverage (times)	nm	nm

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: Annual Report and Company, ICRA Research ; nm: Not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					July 15,2022	Aug 31, 2021	Nov 24, 2020	Mar 18, 2020
1	Fund-based – Term loan	Long-term	486.83	241.3	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Term loans	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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan - 1	Sep 2020	-	Mar 2025	175	[ICRA]BBB (Positive)
-	Term loan - 2	Apr 2021	-	4 years	196	[ICRA]BBB (Positive)
	Term loan - 3	Feb 2022	-	4 years	115.83	[ICRA]BBB (Positive)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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

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About ICRA Limited:

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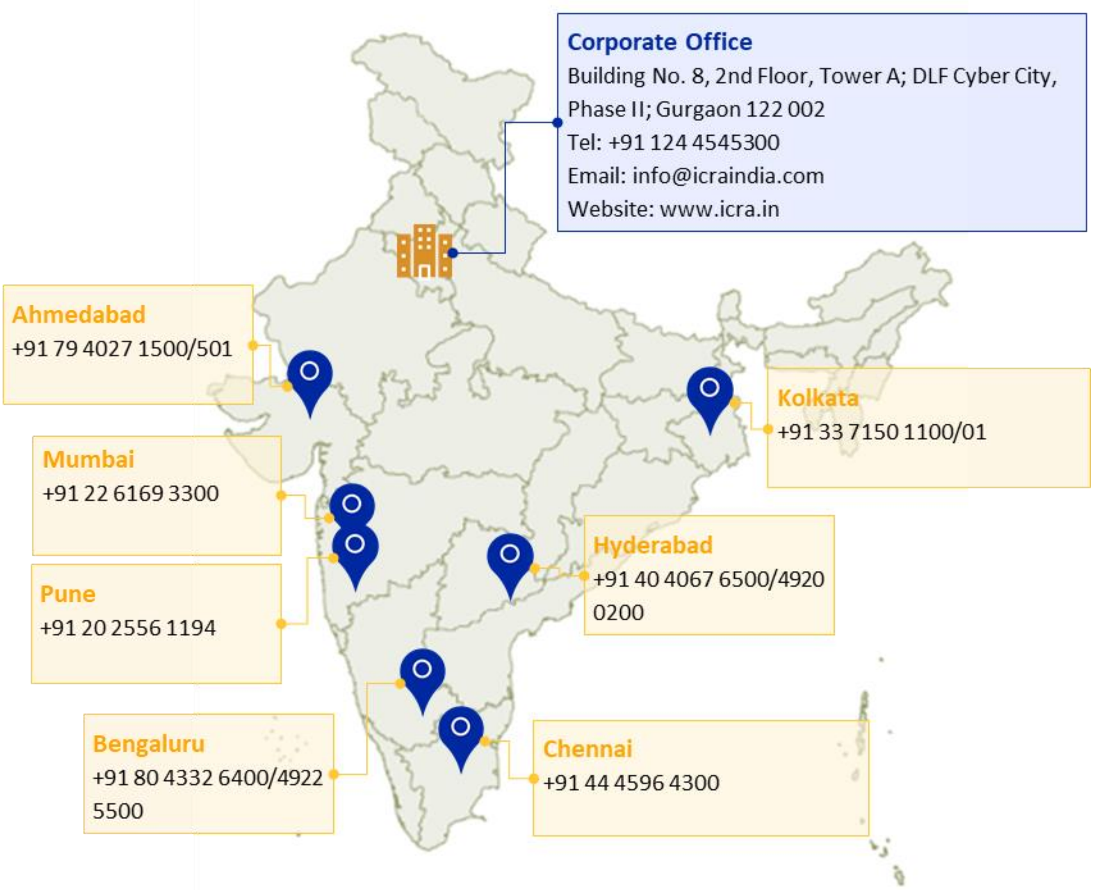

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