February 06, 2024

HCY Industrial Parks Private Limited: Provisional rating finalised

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture (NCD)	33.74	33.74	[ICRA]AAA (Stable); Provisional rating finalised
Total	**33.74**	**33.74**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has finalised the provisional rating assigned to the NCDs of HCY Industrial Parks Private Limited at [ICRA]AAA (Stable). The finalisation of the provisional rating takes into consideration the execution of debenture trust deed and the escrow agreements.

The final rating for the NCDs is based on the consolidated view of the restricted group of 22 special purpose vehicles (SPVs), together referred as IndoSpace Core. IndoSpace Core comprises 17 completed industrial and logistic parks, housed under 22 SPVs of the restricted group, with a leasable area of 14.0 million square feet (msf) as on July 31, 2023 (11.8 msf as on July 31, 2022). The SPVs are fully owned by the same ultimate holding company, IndoSpace Logistics Parks Core Pte Ltd. The rated debt structure derives comfort from the contractual surplus sharing mechanism among the 22 SPVs of the restricted group with a well-defined, pre-default invocation mechanism. Further, there exists cross default clause and cross-collateralisation across the 22 SPVs.

The surplus cash available with any restricted group issuer after meeting their operations and maintenance (O&M) costs and debt obligations will be made available to the other restricted group issuers for meeting shortfall, if any, at least two business days prior to the due date. In case the IndoSpace issuers having surplus cash in their respective accounts above fail to transfer such monies as specified above, the security trustee shall instruct the Escrow Bank (without requirement of any prior notice to any member of the restricted group) to release amounts equivalent to the insufficiency in the amounts outstanding of such IndoSpace issuer from the accounts of the other IndoSpace issuers having surplus cash in their respective accounts and into the designated collection account of such IndoSpace issuer, at least one business day prior to the due date.

The rating favourably factors in the IndoSpace Group's proven track record in the industrial and logistics parks segment, IndoSpace Core's robust business profile supported by the strategically diversified portfolio of completed Grade A industrial and logistics parks, strong occupancy levels and diversified tenant mix for the consolidated assets. The assets under IndoSpace Core have a consolidated leasable area of 14.0 msf (increased from 11.8 msf after acquisition of 4 new assets in the current year), spread across Bengaluru, Chennai, Hyderabad, NCR, and Pune. The occupancy and collections have largely remained resilient led by healthy demand from third-party logistics (3PL), e-commerce and automotive segments. The committed occupancy for the portfolio stood at 98% as on July 31, 2023 (99% as on July 31, 2022) and the top 10 tenants accounted for 44% of the gross rentals. The consolidated assets reported 14% growth in net operating income (NOI) in FY2023 to Rs. 347.6 crore, aided by increase in rental rates and realisation of scheduled escalations as per the rental agreement. ICRA estimates the NOI to grow further by 12-14% each in FY2024 and FY2025, driven by 19% rise in leasable area from the 4 newly acquired assets and sustenance of strong occupancy levels.

The rating further draws comfort from the robust financial risk profile of IndoSpace Core, supported by its strong liquidity and low leverage with a loan to asset value (LTV) of 15% as on July 31, 2023, and expected Debt/NOI of around 2.5 times (after providing some equity credit to the CCDs) as of March 2024 for the current consolidated assets. The consolidated debt outstanding for the consolidated assets, for 22 SPVs as on July 31, 2023, stood at Rs. 1,053.03 crore (comprising external debt of Rs. 859.2 crore and compulsory convertible debentures[1] of Rs. 193.9 crore). The rating is supported by the presence of strong sponsors, Canada Pension Plan Investment Board (CPPIB) and GLP Global. The strong sponsors and low leverage provide exceptional financial flexibility. ICRA is given to understand that the sponsors are willing to provide required support, should a need arise. IndoSpace Core has a policy of acquiring only stable rent-yielding assets.

The rating, however, continues to remain exposed to risks related to variation in interest rates and vulnerability of the portfolio to lease expiry and market risks. The projected debt coverage metrics for the current pool of 17 assets are expected to remain comfortable with 5-year average DSCR of above 2.5 times during FY2024 to FY2028, given the limited debt repayments (5% per annum of NCD amount) during this period for the NCDs. However, the restricted group SPVs face refinancing risk for the balance 80% of NCD amount, which has a bullet repayment at the end of its 5-years tenor in FY2029. The refinancing risk is mitigated to a large extent by the exceptional financial flexibility available to the IndoSpace Core fund. Further, the assets face vacancy risk with around 34% of the total area, on a consolidated basis, are due for renewal in FY2024 and FY2025. Nevertheless, this risk is mitigated to an extent by IndoSpace network's established relationship with reputed tenants and its demonstrated track record of renewal/addition of leases.

ICRA notes that the IndoSpace Core platform is planning to increase additional debt of around Rs. 800 crore towards capital reduction. Further over the next 6 months, additional debt of around Rs. 400 crore, will be raised towards refinance of the debt post the acquisition of 5 additional operational assets with a leasable area of 3.1 msf. The due diligence of these assets is currently underway. While this is likely to result in an increase in the overall indebtedness of the IndoSpace core portfolio by around Rs. 1,200 crore, ICRA expects the leverage and coverage metrics of the portfolio to remain comfortable post the acquisition with estimated Debt/NOI of 4 times (after providing some equity credit to the CCDs) as on March 31, 2025, and 5-year average DSCR of 1.5-1.6 times during FY2025 to FY2029. Any higher-than-anticipated rise in debt impacting the leverage and coverage indicators would be a key monitorable.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that IndoSpace Core will benefit from the well-diversified portfolio of assets, with healthy occupancy levels, which will enable it to maintain comfortable debt protection metrics. ICRA expects the restricted group issuers to adhere to the debt structure, thereby enabling the cash pooling and pre-default contractual surplus sharing mechanism, in case of need arises.

Key rating drivers and their description

Credit strengths

Well-diversified portfolio with reputed tenant profile – The current consolidated asset portfolio of IndoSpace Core has 17 completed industrial and logistic parks (housed under 22 SPVs), which includes completed area of 14.0 msf as on July 31, 2023 (11.8 msf as on July 31, 2022). The SPVs are fully owned by the same ultimate holding company, IndoSpace Logistics Parks Core Pte Ltd. The completed area reported healthy committed occupancy of 98% as on July 31, 2023 (99% as on July 31, 2022). The consolidated assets are spread across five key markets of India – Bengaluru, Chennai, Hyderabad, NCR, and Pune and have a diversified as well as reputed tenant mix with top 10 tenants contributing to 44% of the gross rentals as on July 31, 2023.

Strong financial risk profile – As on July 31, 2023, the total consolidated debt of 22 SPVs was Rs. 1,053.03 crore (comprising external debt of Rs. 859.2 crore and compulsory convertible debenture of Rs. 193.9 crore). The external debt translates into a low LTV of 15% as on July 31, 2023, and the estimated leverage is comfortable with Debt/NOI of 2.5 times (after providing some equity credit to the CCDs) as of March 2024, on a consolidated basis. The strong sponsors and low leverage provide exceptional financial flexibility. The presence of DSRA equivalent to three months' debt obligations and escrow mechanism prioritising debt servicing provide comfort against any short-term liquidity mismatch. Additionally, cash flow fungibility across the assets, due to the cross-collateralised structure, lends strength to the financial risk profile.

[1] *CCDs are expected be subordinated to the NCDs. Interest pay-outs on CCDs are permissible subject to debenture holder/lenders approval, post meeting the debt servicing obligations on the NCDs and no Event of Default subsisting.*

Credit profile supported by conservative leverage policy and surplus sharing arrangement within the restricted group – The credit profile of Indospace Core is expected to be supported by the management's conservative leverage policy. The IndoSpace Core platform is planning to increase additional debt of Rs. 800 crore towards capital reduction. Further, additional debt of Rs. 400 crore will be raised towards refinance of the debt post the acquisition of 5 additional operational assets with a leasable area of 3.1 msf. While this is likely to increase the overall indebtedness of the consolidated assets by around Rs. 1,200 crore over the next 6 months, ICRA expects the leverage (as measured by Debt/NOI) and coverage metrics of the consolidated assets to remain comfortable post the acquisition with estimated 4 times (after providing some equity credit to the CCDs) as on March 31, 2025, and 5-year average DSCR of 1.5-1.6 times during FY2025 to FY2029. Additionally, all the 22 SPVs have a pre-default surplus sharing arrangement with the flexibility to extend the surpluses to any other SPV, which could be utilised for debt servicing of the other SPVs, should a need arise. Any higher-than-anticipated increase in debt impacting the leverage and coverage indicators would be a key monitorable.

Leadership position and established track record of sponsors – The IndoSpace network is one of India's leading developers of industrial and warehousing parks. It develops industrial and logistics parks for leading players across various sectors including automobiles, e-commerce, FMCG, third-party logistics and manufacturing, among others. At present, the network has 41 Grade A parks spread across the country. Overall, the network has an established track record of operating industrial and logistics parks in India, and its status as the investment manager for IndoSpace Core supports the business risk profile of the consolidated asset. Strong financial profile of the sponsors, CPPIB and GLP Global, provides financial flexibility to the consolidated assets.

Credit challenges

Large bullet in FY2029 exposes the structure to refinancing risks – The debt structure has a door-to-door tenure of five years, wherein 80% of the debt has to be paid as bullet repayment in FY2029. This debt structure exposes the SPVs to refinancing risk. The refinancing risk is mitigated to a large extent by the exceptional financial flexibility available to the IndoSpace Core fund.

Exposure to interest rate risk – The SPVs remain exposed to interest rate risk on the NCDs availed for each of their respective assets. Nonetheless, ICRA notes that the projected debt coverage metrics are expected to remain robust.

Vulnerability to lease expiry risks – At a consolidated level, over 34% of the area is due for renewal in FY2024 and FY2025, which exposes it to vacancy risks. In FY2023, majority of the escalations have been realised as per the contract terms. ICRA notes that a predominant number of the leases due for renewal in FY2023 have been either been renewed or replaced. The vacancy risk is mitigated to an extent by the IndoSpace network's strong relationship with tenants and demonstrated track record of renewal/addition of leases in the past.

Liquidity position: Strong

At a consolidated level, the estimated cash flow from operations are comfortable to meet the principal repayments of Rs. 42 crore in FY2025. As on July 31, 2023, the consolidated assets had a free cash and bank balance of Rs. 297.4 crore and DSRA of Rs. 41.6 crore.

Rating sensitivities

Positive factors – Not Applicable.

Negative factors – Any material decline in occupancy or rentals, and/or non-adherence to the debt structure adversely affecting the credit metrics of the company could exert pressure on the rating. Any large debt-funded acquisition which increases the indebtedness leading to Debt[2]/NOI to above 4 times, on sustained basis, at the consolidated level could result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty- Lease Rental Discounting Policy on Provisional Ratings
Parent/Group support	NA
Consolidation/Standalone	For arriving at the rating, ICRA has taken a consolidated view of the 22 SPVs which are part of the restricted group (as mentioned in Annexure II). All the 22 SPVs of the restricted group have a common lender and the debt availed by them has a cash flow pooling mechanism, well-defined pre-default contractual surplus arrangement with presence of cross default clauses.

About the company

Incorporated in 2013, HCY Industrial Parks Private Limited is a step-down subsidiary of IndoSpace Logistics Parks Core Pte. Ltd. The company operates a logistics and Industrial Park named Luhari II in Luhari, Jhajjar. The project is developed on a land parcel of 26.5 acres with a total leasable area of 7.03 lakh sq. ft., which has a committed occupancy of 100% as on July 31, 2023.

IndoSpace Logistics Parks Core Pte. Ltd. (IndoSpace Core) is a JV between Everstone-backed real estate developer and warehousing and logistics specialist IndoSpace (2% stake), CPPIB (93% stake) and global investment fund manager GLP (5% stake). The current asset portfolio of IndoSpace Core has 17 completed industrial and logistic parks (housed under 22 SPVs) with a leasable area of 14.0 msf. The completed area enjoys healthy committed occupancy of 98% as on July 31, 2023. The consolidated assets are spread across five key markets of India – Bengaluru, Chennai, Hyderabad, NCR, and Pune.

Key financial indicators – Consolidated (audited)

Particulars	FY2022	FY2023
Operating income	356.5	460.7
PAT	69.6	99.2
OPBDIT/OI	81%	81.8%
PAT/OI	19.5%	21.5%
Total outside liabilities/Tangible net worth (times)	1.1	1.3
Total debt/OPBDIT (times)	3.2	3.1
Interest coverage (times)	3.9	3.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs crore
Source: Company, ICRA Research

[2] *ICRA has provided some equity credit to the CCDs*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2024)					Chronology of Rating History for the past 3 years		
	Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Feb 06, 2024	Oct 30, 2023	Dec 07, 2022	Oct 05, 2021	Aug 24, 2020
1 NCD	Long-term	33.74	33.74	[ICRA]AAA (Stable)	Provisional [ICRA]AAA (Stable)	-	-	-
2 Term loans	Long-term	-	0.00	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture	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: Click Here.

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE124X07019	NCD	November 10, 2023	NA	September 28, 2028	33.74	[ICRA]AAA (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership*	Consolidation Approach
Indospace Bommasandra Logistics Park Private Limited	100.0%	Full Consolidation
Destination Industrial Parks Private Limited	100.0%	Full Consolidation
IndoSpace Park Chakan 1A Private Limited	100.0%	Full Consolidation
IndoSpace Park Chakan 1C Private Limited	100.0%	Full Consolidation
IndoSpace Park Chakan 1D Private Limited	100.0%	Full Consolidation
IndoSpace Park Chakan 1B Private Limited	100.0%	Full Consolidation
Indospace Park Chakan 1 Phase 2B Private Limited	100.0%	Full Consolidation
Indospace Park Chakan 1 Phase 2A Private limited	100.0%	Full Consolidation
Ambition Logistics Park Private Limited	100.0%	Full Consolidation
IndoSpace Industrial Park Pune Private Limited	100.0%	Full Consolidation
Suyog Logistics Park Private Limited	100.0%	Full Consolidation
IndoSpace FWS Industrial Park Private Limited	100.0%	Full Consolidation
HCY Warehousing Private Limited	100.0%	Full Consolidation
HCY Industrial Parks Private Limited	100.0%	Full Consolidation
IndoSpace SKCL Industrial Park Oragadam Private Limited	100.0%	Full Consolidation
IndoSpace Industrial Parks Private Limited	100.0%	Full Consolidation
IndoSpace SKCL Industrial Park Private Limited	100.0%	Full Consolidation
IndoSpace AS Industrial Park Private Limited	100.0%	Full Consolidation
Indospace Ind. Park Oragadam Walajabad Private Limited	100.0%	Full Consolidation
Indospace Walajabad II Private Limited	100.0%	Full Consolidation
Indospace Park Shamshabad Limited	100.0%	Full Consolidation
Indospace Industrial Park Panruti Private Limited	100.0%	Full Consolidation

**% Ownership of IndoSpace Logistics Park Core Pte. Ltd. in terms of shareholding in respective entities as on December 31, 2023.*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

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