

March 21, 2024

Rathik Industrial & Logistics Park Private Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based - Term loans	76.45	76.45	[ICRA]BBB+ (Positive); Reaffirmed; Outlook revised to Positive from Stable
Short-term – Non-fund based – Letter of credit [#]	(5.00)	(5.00)	[ICRA]A2; Reaffirmed
Short-term – Non-fund based – Bank guarantee	5.00	5.00	[ICRA]A2; Reaffirmed
Total	81.45	81.45	

*Instrument details are provided in Annexure-I; [#] Letter of Credit is a sub limit of Term Loans

Rationale

The revision in outlook on the long-term rating to Positive factors in the improvement in cash flow visibility for Rathik Industrial & Logistics Park Private Limited, given the construction completion and commencement of lease rentals for 63% of the total leasable area (Block B200) from February 2024 (against no pre-leasing tie-ups as of September 2022). The ratings consider the comfortable leverage as well as adequate debt coverage metrics estimated for the project. The industrial and logistics park is in Kunnam Village, Kanchipuram District, Sriperumbudur, Chennai, with a total leasable area of 0.49 million square feet (msf), spread across four warehouse units and it is favourably located with good connectivity to the Oragadam cluster and other adjacent industrial as well as warehousing hubs. The project is proposed to be funded in debt-to-equity ratio of 1.22:1. The funding risk remains low, as the entire debt requirement has been tied up and 83% of the committed equity requirement has been infused as of September 2023. The ratings continue to draw comfort from the strong business profile of the IndoSpace Network with an established track record in the industrial, warehousing and logistics park business in India.

The ratings are, however, constrained by the project's exposure to residual execution risk as about 42% of the total project cost is yet to be incurred as on September 30, 2023, against the date of commencement of commercial operations (DCCO) of January 01, 2026. The company is exposed to market risk with 37% of the area yet to be tied up as of February 2024. Its ability to achieve timely leasing at adequate rental rates will be the key rating monitorable. However, ICRA derives comfort from the demonstrated ability and track record of IndoSpace to execute and lease projects on time. Further, the company is exposed to refinancing risk for the construction finance (CF) loan, which has two bullet repayments for 10% and 90% of the facility in June 2026 and June 2027, respectively. Nevertheless, the relatively low leverage in the project resulting in overall moderate break-even occupancy, lower incremental leasing required in 2 years, the sponsors' leasing track record and exceptional financial flexibility mitigate the refinancing risk to an extent. The company is also vulnerable to high geographical and asset concentration risks inherent in a single project portfolio.

Key rating drivers and their description

Credit strengths

Commencement of rentals for 63% of total leasable area; favourable project location – The construction of Block B200 is complete and the rentals for 63% of the total leasable area (Block B200) have commenced from February 2024 (against no pre-leasing tie-ups as of September 2022). The project is located on a land parcel in Kunnam Village on SH-120, Kanchipuram District, Sriperumbudur, Chennai admeasuring about 23.24 acres. The proposed site is situated at approx. 12 kms from Walajabad Railway Station. Chennai CBD, Chennai Airport, Chennai Port are situated at a distance of approx. 53 kms, 45 kms

and 56 kms, respectively. Oragadam is the largest industrial region in Chennai and remains a preferred location for setting up an industrial and logistics park because of its excellent manufacturing ecosystem with good connectivity to the port, airport and to the city of Chennai.

Comfortable leverage and low funding risk – The project’s funding risk is low as the debt requirement has been tied up and nearly 83% of the equity requirement has already been infused as of September 2023. The budgeted project cost of Rs. 139 crore is estimated to be funded by a debt-to-equity ratio of 1.22:1. ICRA derives comfort from the comfortable leverage and the adequate debt service coverage ratio (DSCR) estimated from the project. The rated CF facility requires maintaining a DSRA equivalent to three months of interest repayment obligation during the entire loan tenure.

Strong track record and business profile of sponsors – Rathik Industrial & Logistics Park Private Limited is promoted by ILP III Ventures XVII Pte Ltd. (part of the IndoSpace network). IndoSpace is sponsored by Realterm Global, Everstone Capital and GLP Global. Realterm Global has more than 20 years of experience in developing industrial and logistics parks across the world. At present, it manages assets worth over USD 7 billion. It operates some of the largest and most modern facilities in North America and other parts of the world. Everstone Capital is a prominent India-focused investment firm. The Everstone Group manages funds of over USD 5 billion in private equity and real estate. GLP Global is an investment firm, with over USD 100 billion assets under management (AUM) across multiple asset classes including real estate, private equity segments and infrastructure.

Credit challenges

Exposure to project execution and market risks – The project is at an intermediate stage of execution, with 58% construction progress as on September 30, 2023. It has a total leasable area of 0.49 msf spread over four units, out of which one is completed and two were under construction as of September 2023. Nevertheless, ICRA expects the construction to be completed within the scheduled timeline without any material time and cost overrun, given the DCCO of January 01, 2026, and the extensive experience of the sponsor in the warehousing space. The pre-leasing tie up is at 63% of the leasable area, exposing the company to market risk for the balance area.

Exposure to refinancing risk – The repayment of the existing CF facility is due in two bullet instalments of 10% and 90% of the total sanctioned limit in June 2026 and June 2027, respectively. Any delays in construction or inadequate leasing may adversely impact its refinancing ability. However, the relatively low leverage in the project resulting in overall moderate break-even occupancy, lower incremental leasing required in 2 years, the sponsors’ leasing track record and exceptional financial flexibility mitigate the refinancing risk to an extent.

Geographical and asset concentration risks – The company is exposed to high geographical and asset concentration risks inherent in single project companies. However, ICRA draws comfort from IndoSpace’s diverse portfolio of logistics and industrial parks, including developed and under-development parks, across India.

Liquidity position: Adequate

The company’s liquidity position is adequate with Rs. 2.02-crore cash and liquid investments and Rs. 34.46-crore undrawn bank limits, as on September 30, 2023, which along with the balance equity commitments (including any internal accruals) will be adequate to fund the pending project cost of Rs. 57.87 crore.

Rating sensitivities

Positive factors – Tie-up of leases for the balance blocks at adequate rental rates and improvement in debt coverage metrics, with five-year average DSCR of greater than 1.2 times, on a sustained basis, may trigger a rating upgrade.

Negative factors – Considerable delays in tying up balance lease at adequate rental rates or any significant increase in indebtedness impacting the debt protection metrics may warrant a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty – Lease Rental Discounting (LRD)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Rathik Industrial & Logistics Park Private Limited is developing an industrial and logistic park located in Kunnam Village on SH-120, Kanchipuram District, Sriperumbudur, Chennai. The project is being developed on a land parcel admeasuring 23.24 acres, with a total leasable area of 0.49 msf.

Key financial indicators (audited) - Not applicable for a project company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 21, 2024	Jan 04, 2023	-	-
1 Term loans	Long-term	76.45	41.99	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	-	-
2 Letter of credit#	Short-term	(5.00)	-	[ICRA]A2	[ICRA]A2	-	-
3 Bank guarantee	Short-term	5.00	-	[ICRA]A2	[ICRA]A2	-	-

Letter of Credit is a sub limit of Term Loans

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based - Term loans	Simple
Short-term – Non-fund based – Letter of credit	Very Simple
Short-term – Non-fund based – Bank guarantee	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 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
NA	Term loans	July 19, 2022	NA	FY 2028	76.45	[ICRA]BBB+ (Positive)
NA	Letter of credit [#]	-	-	-	(5.00)	[ICRA]A2
NA	Bank guarantee	-	-	-	5.00	[ICRA]A2

Source: Company; [#] Letter of Credit is a sub limit of Term Loans

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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