

Panchshil Tech Park Private Limited

December 19, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	275.00	495.00	[ICRA]BBB+ (Stable); re-affirmed
Total	275.00	495.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of long-term rating of Panchshil Techpark Private Limited (PTPL) continues to factor in the extensive track record of the Panchshil Group in real estate development, its strong parentage with strategic investment from Blackstone Group and its association with various reputed global brands. The rating assigned also factors in PTPL's long-term association with its reputed tenants as reflected by its past track record of renewal of lease agreements as well as timely rental escalations. PTPL's projects have favourable location (Yerwada and Hinjewadi, both located at Pune, Maharashtra), with good infrastructure as well as connectivity with the key city areas. ICRA takes note of the proposed development of ~1 million square feet (msf) of commercial leasable area by the company at Viman Nagar (Pune), with an estimated cost of ~Rs. 450 crore. The development is at initial stage of construction and is likely to be completed by FY2021, thereby significantly boosting PTPL's rental potential. The project would be funded by lease rent discounting (LRD) loans taken against Yerwada asset (leasable area of 0.9 msf) and thus, enjoy lower interest rate and longer tenure when compared to construction finance debt. While reaffirming the rating, ICRA has also taken note of the expected inflow against PTPL's investment in Indian Express Newspaper Private Limited (IENPL)¹ which the management intends to utilise for construction and debt reduction. However, the timelines of monetisation would remain contingent upon necessary approvals; ICRA would monitor the transaction and utilisation of funds closely.

The rating, however, remains constrained by the high dependence on timely remittance of rentals by the tenants, due to the absence of debt service reserve account (DSRA), heightened by the current short-term cash-flow mismatch which is being met by dipping into PTPL's liquid investments. However, the risk is mitigated partly by the presence of the escrow mechanism to collect rentals and revenues from maintenance operations to service its debt obligations. Further, as on December 15, 2018, PTPL reported unencumbered cash and liquid investments at Rs. 33 crore which would be sufficient to tide over the interim cash-flow mismatch. ICRA notes that the occupancy had remained low at 80% till H1 FY2019 as the management deferred the leasing out of Tower-A of Hinjewadi asset as the Tower-B was in initial stages of construction; Tower-A and Tower-B have leasable area of 2.31 lakh square feet and 2.70 lakh square feet respectively. As per the management, Tower-A would be fully occupied by March 2019 and Tower-B would also be occupied by beginning FY2020. Thus, the cashflow mismatch is expected to correct by the beginning of FY2020 after commencement of rental collections from Tower-B. PTPL faces a moderately high tenant concentration risk as the top-five lessees take up ~70% of the leased area.

¹ Indian Express Newspaper Private Limited (IENPL) has requested National Company Law Tribunal (NCLT) to reduce its existing equity share capital through cancellation of the 130,022 equity shares held of IENPL held by PTPL. (Source: draft red herring prospectus filed with SEBI by Embassy Office Parks REIT).

Outlook: Stable

ICRA believes PTPL will continue to benefit extensively from the strong brand positioning of the Panchshil Group in the Pune commercial real estate market and would attract reputed tenants for its under-construction projects as well. The outlook may be revised to Positive if the proceeds against investment in IENPL flow in earlier than expected and is utilized to reduce debt. Also, PTPL's ability to tie-up tenants for its under-construction projects such that the cash flow visibility is stronger-than-expected would also support outlook change to Positive. The outlook may be revised to Negative if there is any delay in ramp-up of rentals such that the current cashflow mismatch is prolonged or if there is higher than expected dependence on debt for funding the ongoing construction activities.

Key rating drivers

Credit strengths

Established track record and strong parentage - PTPL is a part of the Panchshil Group, which is, one of the reputed real estate developers in Pune. It has a strong parentage with strategic investment from Blackstone (49%), the world's leading real estate private equity firm. The remaining stake is held by the Panchshil Group, which has a healthy track record of real estate development in Pune and association with various reputed global brands such as The Trump Organization, YOO, JW Marriot, The Ritz- Carlton, Oakwood and World Trade Centers Association over the last 15 years.

Reputed tenant profile and long-term association with key tenants - PTPL has a reputed tenant profile since inception including multinational players like IBM, Concentrix, Netcracker, CLSA and E&Y among others. Also, it has a long-term association, with its key tenants and a proven track record of renewal of lease agreements, which provides some comfort against the market risk.

Favourable location of the projects - PTPL's projects are located at Yerwada and Hinjewadi in Pune, Maharashtra. Both these locations have good infrastructure development and good connectivity with key city areas providing favourable locational advantage. PTPL's upcoming project (1 msf leasable area) is located at Viman Nagar which is located close to Pune's international airport.

Presence of escrow mechanism - An escrow account is being maintained to collect the rentals and revenues from maintenance operations to service its debt obligations. Moreover, there is a sufficient buffer period available between the rent collection date and the repayment due date, which provides some inherent cushion for debt servicing in a timely manner.

Credit challenges

Interim cashflow mismatch due to mis-alignment of debt obligations and rentals – At present, PTPL is facing cash-flow mismatch which is being funded by adequate liquid investments (outstanding at Rs. 33 crore as on December 15, 2018). ICRA notes that the EMI being paid out is based on full debt drawdown even as a large part of sanction remains undrawn at present. Additionally, impending proceeds from IENPL as well as undrawn bank lines of Rs. 163.5 crore support the company's medium-term liquidity profile.

Moderate vacancy risk – At present, PTPL has 1.1 msf of operational leasable area and 1.3 msf of under-construction area. Though tenants for a predominant share of its operational area are already tied-up, the vacancy risk arises from the large under-construction area. However, the rating takes comfort from the favourable location of the projects as well as strong brand positioning of the Group which mitigates this risk.

High tenant concentration risk – PTPL's tenant concentration risk remains moderately high as the top three and five tenants account for ~56% and ~70% of the leased space respectively as of November 2018. However, the risk is partly mitigated as, the company has a long-term association with key tenants and its tenant profile is reputed.

Liquidity Position:

At present, the company is facing cash-flow mismatch owing to misalignment of the monthly rentals (Rs. 7.65 crore) and EMI outflow at Rs. 8.85 crore. Prima facie, there is a mismatch between the rental inflows and EMI to the extent of Rs. 1.2 crore per month (estimated for December 2018). However, this is because of payment of full EMI even as debt has not been fully drawn down. Since some of the leasable area would be occupied over coming months, this mismatch would reduce. Over this interim period, the company would utilize its unencumbered cash and liquid investments to tide over the situation. Additionally, PTPL has an undrawn debt of Rs. 163.5 crore which would be utilized for funding the construction activities. ICRA also favourably notes the management's intent to utilise the proceeds from IENPL, expected to flow within next few quarters, for reducing debt level. Moreover, PTPL has Rs. 3.5 crore of inter-corporate deposits (ICD) given to its subsidiary Hinjewadi Tech Park Private Limited (HTPL). As HTPL is a profit-making company, so these can be called back as and when required.

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	The rating is based on standalone financial statements of the issuer.

About the company:

Incorporated in 2005, PTPL is involved in the development, leasing and maintenance of IT parks. PTPL is a part of Panchshil Realty, which is one of the largest and reputed real estate developers based out of Pune. At present, PTPL has leased out two operational properties namely 'Tech Park One' and Panchshil Infotech Park (Tower A) and two under-construction properties (Panchshil Infotech Park, Tower B and Viman Nagar).

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	88.7	96.6
PAT (Rs. crore)	15.2	30.4
OPBDIT/OI (%)	84.3%	87.0%
RoCE (%)	13.2%	16.0%
Total Debt/TNW (times)	1.3	1.7
Total Debt/OPBDIT (times)	3.0	4.1
Interest Coverage (times)	88.7	96.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating December 2018	Date & Rating in FY2018 September 2017	Date & Rating in FY2017 August 2016	Date & Rating in FY2016
1 Term Loan	Long Term	495.00	330.7	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-

**As on November 22, 2018*

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	Term Loan 1	Sep-2017	NA	Aug- 2021	50.8	[ICRA]BBB+ (Stable)
NA	Term Loan 2	Sep-2017	NA	Apr- 2021	47.3	[ICRA]BBB+ (Stable)
NA	Term Loan 3	Sep-2017	NA	Dec-2021	53.4	[ICRA]BBB+ (Stable)
NA	Term Loan 4	Sep-2017	NA	Feb-2022	37.1	[ICRA]BBB+ (Stable)
NA	Term Loan 5	Sep-2017	NA	Jul-2027	142.1	[ICRA]BBB+ (Stable)

Source: PTPL

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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