

ESR Pune Industrial Park Private Limited

April 23, 2019

Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|------------------------|-----------------------------------|----------------------------------|---|
| Long-term: Unallocated | 200.00 | - | - |
| Long-term: Term Loan | - | 200.00 | Provisional [ICRA]BBB (Stable) confirmed as final |
| Total | 200.00 | 200.00 | |

*Instrument details are provided in Annexure-1

Rationale

ICRA had, in November 2018, assigned a rating of Provisional [ICRA]BBB (Stable) to Rs. 200.0-crore proposed bank lines of ESR Pune Industrial Park Private Limited (ESR Pune). In February 2019, the validity of the outstanding rating was extended by 120 days in line with the rating conditions. Since the executed transaction documents are in line with the rating conditions the said rating has now been confirmed as final.

The rating assigned to ESR Pune continues to favourably factor in the profile and track record of the company's parent – ESR Group –in the development and leasing of logistics and industrial parks globally, with over 120 million square feet (msf) of assets under management. The Group's India management is vastly experienced in undertaking development and leasing of logistics and industrial parks in India. The assigned rating also draws comfort from the favourable location of ESR Pune's project in Chakan, Pune, which is one of the largest manufacturing hubs in India. The moderate leverage of the project with debt/ equity of 1.14 times and moratorium of 30 months from first drawdown provides comfort to the rating assigned. ICRA also takes note of the management commitment to maintain moderate leveraging in the projects during the construction stage as well as post commissioning. The rating assigned also factors in the presence of an escrow structure and debt servicing reserve account (DSRA) equivalent to six month's principal and interest payments as per the final sanction terms.

The assigned rating, however, is constrained by the exposure to execution risk as construction is in initial stages (status as on March 31, 2019). As of April 15, 2019, the company had tied up lease agreement for 35% of the proposed leasable area of 1.4 msf; discussion for remaining area with prospective tenants is under various stages of discussion. With a significant part of area under development yet to be leased, ESR Pune is also exposed to market risk. Construction progress and leasing progress will remain key rating monitorables for the company.

Outlook: Stable

ICRA believes that the company will benefit from its strong parentage and experienced management. The outlook may be revised to Positive if the company is able to achieve faster-than-expected construction and leasing progress. The outlook may be revised to Negative in case of significant time and cost overruns, or if tie-up of the leases is delayed and done at lower rates.

Key rating drivers

Credit strengths

Experience promoters with long track record in real-estate sector globally –ESR Group has an established track record of development and leasing of over 120 msf of logistic and industrial parks globally. The Group’s India management is vastly experienced in undertaking development and leasing of logistics and industrial parks in India. Additionally, being backed by strong investors including Warburg Pincus, APG, and Goldman Sachs, the Group is adequately funded to support its India growth plans.

Strategic location of the project in a developed industrial hub – The project is strategically located in Chakan, Pune, which is one of the largest manufacturing hubs in India. The location is the preferred micro-market for automobile OEMs and ancillaries in Pune. The micro-market has witnessed a lot of leasing interest from multinational companies in the recent years, which has resulted in reducing vacancy levels and steady rental appreciation.

Comfortable funding mix with debt/equity of 1.14 times – The estimated project cost of Rs. 379 crore would be funded through debt of Rs. 200 crore and the rest through equity contribution and customer advances. Additionally, presence of escrow structure and DSRA equivalent to six months of interest and principal payments provides rating comfort.

Credit challenges

Exposed to moderate execution risk – As of March 31, 2019, the company has completed the land acquisition and started construction with combined cost incurred at around one third of the estimated project cost.

Exposed to moderate market risk – As of March 31, 2019, the company has tied-up tenant for only 35% of the total leasable area of 1.4 msf. Also, the company is in advanced stage of discussion with potential tenants for a portion of remaining leasable area.

Liquidity Position:

The estimated project cost of Rs, 379 crore is planned to be funded by mix of debt (53%), equity (38%; including Compulsorily Convertible Debentures) and remaining by customer advances. ICRA notes the financial flexibility available to the company from being part of ESR Group as well as cushion available in the form of DSRA.

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:

ESR Pune, a part of the ESR Group, was incorporated on November 13, 2017 to undertake development and lease industrial park/logistics facilities. ESR Pune proposes to undertake a single project located in Chakan MIDC Phase-II, Pune. The project is spread over 53 acres with a potential leasable area of 1.4 msf.

ESR Group is one of Asia’s largest developers and operators in the logistics and warehousing segment. The Group is backed by strong investors including Warburg Pincus, APG, CPPIB, Goldman Sachs, Morgan Stanley AIP, PGGM, Ping

An and SK Holdings. Based out of Hong Kong and Singapore, it owns and manages over 120 msf of assets in Australia, China, India, Japan, Singapore and South Korea. The group has over US\$ 14 billion in total assets under management. The group is a leading pan-Asia logistics real estate developer, owner and operator focused on the key metropolitan areas most closely tied with consumption and global trade.

Key financial indicators (audited)

| | FY2016 | FY2017 |
|------------------------------|--------|--------|
| Operating Income (Rs. crore) | NA | NA |
| PAT (Rs. crore) | NA | NA |
| OPBDIT/OI (%) | NA | NA |
| RoCE (%) | NA | NA |
| Total Debt/TNW (times) | NA | NA |
| Total Debt/OPBDIT (times) | NA | NA |
| Interest coverage (times) | NA | NA |

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

| | | Chronology of Rating History for the Past 3 Years | | | | | | | | |
|------------|--------------|---|--------------------------------|------------------------|------------------------|----------------------------------|--|----------------------------------|-------------------------------|---|
| | | Current Rating (FY2019) | | | Date & Rating | | Date & Rating | | Date & Rating | |
| Instrument | Type | Rated Amount (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating Apr 2019 | Date & Rating Nov 2018 | Date & Rating in FY2019 Oct 2018 | Date & Rating in FY2019 Jul 2018 | Date & Rating in FY2018 Mar 2018 | Date & Rating in FY2017 | |
| 1 | Term Loan | Long Term | 200.00 | 0.0 | [ICRA]BBB (Stable) | - | - | - | - | - |
| 2 | Unallocated | Long-Term | - | - | - | Provisional [ICRA]BBB (Stable) | | | | |
| 3 | Proposed NCD | Long Term | - | - | - | - | Withdrawn; Provisional [ICRA]BB (Stable) | Provisional [ICRA]BB (Stable) | Provisional [ICRA]BB (Stable) | |

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 |
|---------|-----------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| | Term Loan | Mar-2019 | | Mar-2032 | 200.00 | [ICRA]BBB (Stable) |

Source: ESR Pune

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