

July 29, 2019 <sup>Revised</sup>

## TVS Industrial & Logistics Parks Private Limited (formerly TVS Infrastructure Private Limited): Ratings downgraded to [ICRA]A-(Stable)/[ICRA]A2+; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	665.0	960.0	[ICRA]A- (Stable); downgraded from [ICRA]A (Stable)
Long-term, Fund-based Facilities	15.0	20.0	[ICRA]A- (Stable); downgraded from [ICRA]A (Stable)
Short-term, Fund-based Facilities	20.0	20.0	[ICRA]A2+; downgraded from [ICRA]A1
<b>Total</b>	<b>700.0</b>	<b>1000.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings downgrade for TVS Industrial and Logistics Parks Private Limited (TVSILP, erstwhile TVS Infrastructure Private Limited) reflects the expected moderation in its capital structure and debt coverage indicators on the back of its primarily debt-funded expansion projects. Having an asset-heavy business model, it entails sizeable capital for scaling up. TVSILP's total leasable area increased to 1.5 million square feet (sft) as on March 31, 2019 from 0.7 million sft as on March 31, 2018. This was mainly debt funded, resulting in an increase in the total debt to Rs. 280.6 crore as on March 31, 2019 from Rs. 133.5 crore as on March 31, 2018. Furthermore, the company plans to increase the leasable area to 5.66 million sft by March 31, 2021, with projects being executed at Hosur (Tamil Nadu), Coimbatore (Tamil Nadu), Red Hills (Chennai, Tamil Nadu), Nelamangala (Karnataka), Hyderabad (Telangana) and Jaipur (Rajasthan) at a total estimated cost of ~Rs. 883 crore. The scale of expansion is significantly larger compared to TVSILP's current balance sheet. The expansion is to be primarily funded through debt of ~Rs. 690 crore, of which ~Rs. 390 crore is sanctioned till date. However, ICRA notes that TVSILP's policy of proceeding with warehouse construction only after the receipt of a letter of intent (LOI) from its anchor customer mitigates the offtake risk to a large extent. The business model, which involves long-tenure agreements with clients, ensures long-term commitment of cash inflows. While the risk of vacancies exists post expiry of tenancy agreements, ICRA takes comfort from TVSILP's track record in maintaining healthy occupancy and short vacancies.

ICRA notes that, out of the expansion plan, TVSILP has completed construction of the 0.6 million sft space at Hosur Park 2, and has already acquired land at Coimbatore and Redhills (Chennai), while the other projects are at various stages of execution. In addition, the anchor tenant has already been firming at all the upcoming locations. Though the company possesses the requisite expertise to build and lease out industrial spaces, these projects, being in various stages of execution, expose the company to some degree of project execution risks.

The ratings, however, favourably factor in TVSILP's strong parentage, with a 50% stake being held by the TVS Group, and the associated financial and operational flexibility. The ratings also factor in TVSILP's extensive experience, its established position in warehouse / logistics parks construction and leasing, the favourable locations of its parks, and its reputed client profile. ICRA also considers, the steady diversification of TVSILP's customer profile from largely TVS Group companies to other customers, leading to lesser concentration risk. Also, the steady business it receives from one of its

promoters (TVS Supply Chain Solutions Limited (erstwhile TVS Logistics Services Limited) or TVSSCS; rated [ICRA]A+ (Stable) / [ICRA]A1) and other Group companies provides comfort. Furthermore, most of TVSILP's clients are renowned and established players, thus mitigating credit risks associated with default in contractual obligations or vacancies leading from closure / shrinkage of client business.

As indicated by the management, apart from the lease rentals, the company's cash flows would be supported by income from engineering procurement and construction (EPC) services. The management estimates an exponential growth in the income from EPC services going forward (~Rs. 6 crore in FY2019). Inability to scale up the EPC business will be a credit negative. Besides, the company is required to improve its net-worth and correct its capital structure by bringing in additional equity, which is a key rating sensitivity. The ratings remain sensitive to any further large debt-funded expansions / acquisitions, adversely impacting the company's credit profile. ICRA will continue to monitor the developments in this regard on a case-to-case basis.

### Outlook: Stable

ICRA expects TVSILP to continue to benefit from the Group's extensive experience in the logistics business and related infrastructure. The outlook may be revised to Positive if there is a substantial scale-up in EPC revenues, along with timely completion of ongoing projects with full occupancy soon after completion, thereby reducing the project and market risks, while improving the cash flow visibility. The outlook may be revised to Negative if cash accruals from the completed projects are lower than expected due to either lower-than-expected monthly rentals or vacancies at the time of lease renewals, or if the capital expenditure (capex) is significantly higher than expected, thus stretching the financial profile. The company's inability to achieve scale-up in the EPC revenues as envisaged and bring in adequate equity to correct the capital structure would also be a credit negative.

### Key rating drivers

#### Credit strengths

**Strong parentage with financial and operational flexibility as part of Group** - The TVS Group, with revenues of more than US\$ 10 billion, is an automotive conglomerate, comprising companies involved in manufacturing of two-wheelers, three-wheelers and auto components, distribution, automobile dealership, and finance, among others. TV Sundaram Iyengar & Sons (TVS & Sons; rated [ICRA]AA(Stable)/[ICRA]A1+), established in 1911, is the Group's parent company and an automobile distribution company in India. TVSILP is a 50:50 joint venture (JV) between TVS Supply Chain Solutions (a 43.6% subsidiary of TVS & Sons; and rated [ICRA]A+ (Stable) / [ICRA]A1), the Group's logistics arm, and Ravi Kumar Swaminathan & Associates. Being a part of the TVS Group, TVSILP not only enjoys an established and reputed brand name, but also derives significant financial and operational flexibility.

**Strong business synergies with Group companies** – Since incorporation, TVSILP had been deriving considerable part of its revenues from TVS Group companies, especially from TVS Supply Chain Solutions, although the ratio of TVS Group in the overall business of TVSILP, has been reducing steadily. Irrespective of this decline, TVSILP continues to draw synergies while being part of the TVS Group, and specially, owing to TVSSCS, which operates in the related business of Third-Party Logistics. TVS Supply Chain Solutions is an automotive transportation and logistics service provider (inbound / outbound logistics and warehousing). TVS Supply Chain Solutions does not own any of the infrastructure, which are hired / leased from service providers. TVSILP is one such vendor for TVS Supply Chain Solutions, and for other Companies in the TVS Group. Though TVSILP does not have any written agreement with the Group companies for outsourcing of work, considering the Group's management control over the company, it can be safely assumed that bulk of the infrastructure creation related requirement of the Group would be extended to TVSILP. The Group thus ensures that the infrastructure is created and owned within the Group, while still not impacting the core activities of the Group companies.

**Business model ensures long-term commitment of cash inflows** - TVSILP enters into long-term lease agreements with customers, typically for 5-10 years duration. The company tries to ensure a payback period of seven to eight years for arriving upon the rentals to be charged (when compared to the term loan tenure of 12-15 years for its new projects). Most of the contracts have a lock-in of at least three years, thus ensuring a steady commitment of cash flows from the existing assets. The growth in cash flows would depend upon the escalation clause (typically 5% per annum) and the company's ability to add assets regularly. The regularity of cash flows would be contingent upon its ability to either renew the agreements with existing customers or find new customers at the expiry of each lease. TVSILP has, over the years, demonstrated its ability in maintaining a healthy occupancy of its assets.

## Credit challenges

**Ongoing debt-funded capital expenditure will lead to further moderation in the capital structure and debt coverage indicators** – The warehouse construction projects are capital intensive. TVSILP has estimated a capital outlay of ~Rs. 883 crore to be incurred over FY2020 and FY2021 towards the above-mentioned projects, leading to an increase in the total leasable area to 5.66 million sft as on March 31, 2021 from 1.5 million sft as on March 31, 2019. As the company proposes to fund bulk of this through debt, its leverage ratio, which has already weakened with Total Debt/OPBDITA of 9.1 times as on March 31, 2019 (as per provisional financials), is expected to witness further increase. Since the rentals from these projects will start to accrue in stages over FY2020 and FY2021, the return indicators (return on capital employed) during FY2020 and FY2021 are also expected to be constrained. Though the loans currently tied up by TVSILP are for longer duration (12-15 years), the debt coverage indicators are expected to weaken once the debt repayment starts ballooning, i.e. FY2022 onwards.

**Project execution risks with an aggressive expansion plan to set up additional about 3.56 million sft of space over the medium term** – With a current leased-out warehouse space of nearly 2.1 million sft across seven locations, TVSILP's scale of current operations is moderate. The company has currently embarked on an expansion plan to achieve leasable warehouse / logistics park space of 5.66 million sft by FY2021. As part of the expansion plan, TVSILP has identified new projects (warehouse / spare parts distribution hubs) at Hosur (Tamil Nadu), Coimbatore (Tamil Nadu), Redhills (Tamil Nadu), Nelamangala (Karnataka), Hyderabad (Telangana) and Jaipur (Rajasthan). Out of these, the Hosur Park 2 Phase I (~0.6 million sft) has completed the construction phase, the land acquisition is complete at Coimbatore and Redhills (Chennai), and the rest of the projects are at different phases of execution thus, exposing TVSILP to some degree of project execution risks.

## Liquidity position:

TVSILP has total debt outstanding of Rs. 280.6 crore as on March 31, 2019, which includes term loans of Rs. 263.2 crore. As TVSILP has been funding the capital expenditure largely through debt, it has resulted in an increase in interest expenses and will require higher margin for bank loans, thus stretching the cash flows and liquidity, going forward. Though the loans currently tied up by TVSILP are for longer duration (12-15 years), the liquidity profile will weaken once the debt repayment starts ballooning, i.e. FY2022 onwards.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent / Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TVSILP. As on March 31, 2019, the company had four special purpose vehicles, that are enlisted in Annexure-2.

## About the company:

TVS Industrial and Logistics Parks Private Limited (erstwhile TVS Infrastructure Private Limited), a part of the TVS Group, was set up in 2005 to support the Group's supply chain management by providing core industrial infrastructure for manufacturing, distribution and sales. TVSILP is a 50:50 JV between TVS Supply Chain Solutions (rated [ICRA]A+ (Stable) / [ICRA]A1), the logistics arm of the Group, and Ravi Kumar Swaminathan & Associates. TVSILP creates industrial infrastructure facilities such as industrial and warehouse buildings, and logistics infrastructure parks. From a public limited company, it was converted into a private limited company in December 2015, and the name was changed to TVSILP during FY2018.

As per the provisional financials for FY2019 (consolidated), TVSILP reported a profit after tax (PAT) of Rs. 3.7 crore on an operating income (OI) of Rs. 42.2 crore, as against a PAT of Rs. 3.3 crore on an OI of Rs. 21 crore during FY2018.

## Key financial indicators (consolidated)

	FY2018 (audited)	FY2019 (provisional)
Operating Income (Rs. crore)	21.0	42.2
PAT (Rs. crore)	3.3	3.7
OPBDIT/OI (%)	59.4%	72.7%
RoCE (%)	9.2%	12.0%
Total Debt/TNW (times)	2.2	4.3
Total Debt/OPBDIT (times)	10.7	9.1
Interest coverage (times)	2.8	1.9

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
				July 2019	April 2018	March 2018	December 2016	
1 Term Loans	Long-term	960.00	263.25	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Stable)	
2 Fund-based Limits	Long-term	20.00	-	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Stable)	
3 Fund-based Limits	Short-term	20.00	-	[ICRA]A2+	[ICRA]A1	[ICRA]A1	-	

\*As on March 31, 2019

### 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](http://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	Mar-16	NA	Dec-24	16.0	[ICRA]A- (Stable)
NA	Term Loan	Aug-17	NA	Sep-29	240.0	[ICRA]A- (Stable)
NA	Term Loan	Jan-19	NA	Jan-34	250.0	[ICRA]A- (Stable)
NA	Term Loan	Jun-17	NA	Jun-32	100.0	[ICRA]A- (Stable)
NA	Term Loan	Jun-18	NA	Jun-33	50.0	[ICRA]A- (Stable)
NA	Proposed Term Loan	NA	NA	NA	304.0	[ICRA]A- (Stable)
NA	Cash Credit Facility	NA	NA	NA	20.0	[ICRA]A- (Stable)
NA	Short-term Loans	NA	NA	NA	20.0	[ICRA]A2+

Source: TVS Industrial & Logistics Parks Private Limited

### Annexure-2: List of Entities Considered for Consolidated Analysis

Company Name	Ownership	Consolidation Approach
Jagannath Logistics & Industrial Parks LLP	100.0%	Full Consolidation
Maragathammbal Industrial & Logistics Parks LLP	100.0%	Full Consolidation
Marudhamalai Industrial & Logistics Parks LLP	100.0%	Full Consolidation
Siruvapuri Murugan Industrial & Logistics LLP	73.0%	Full Consolidation

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## Corrigendum:

**Rationale dated July 29, 2019 has been revised with changes as below:**

Revision on Page 6 - The table in Annexure-2 has been updated with the ownership of Siruvapuri Murugan Industrial & Logistics LLP revised to 73% from 100%.

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