April 13, 2020

ESR Warehousing Pvt Ltd: Rating re-affirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	225.00	225.00	[ICRA]BBB(Stable); re-affirmed
Total	**225.00**	**225.00**	

**Instrument details are provided in Annexure-1*

Rationale

The re-affirmation of rating of ESR Warehousing Pvt Ltd ('EWPL' or 'the company') continues to factor in the long track record of the company's sponsor –ESR Group–in the development and lease of logistics and industrial parks globally. ICRA notes that the scope of the project has increased as the company has acquired contiguous land[1] parcel. Nevertheless, the project has attracted adequate leasing which stands at nearly 50% of the increased leasable area and the additional land parcel is expected to generate interest due to better frontage and increased visibility. The re-affirmation of rating also factors in the conservative financial policy of the management such that debt funding for any under construction project is maintained around 55%. The ratings are also supported by presence of an escrow structure and debt servicing reserve account (DSRA) equivalent to three month's principal and interest payments as per the final sanction terms. ICRA notes that for nearly 30% of the leasable area rentals have commenced; however, the financial flexibility available from raising debt through lease rental discounting (LRD) against these is off-set by the increased project cost.

The rating, however, continues to be constrained by the exposure to execution risk as construction is under progress. With the acquisition of additional land parcel, the scope of the project has increased by nearly 25%. As per the revised project scope, EWPL has incurred nearly 40% of the project cost which exposes the company to execution risk. However, the execution pace is expected to remain healthy in line with the leasing progress. Increase in the scope also exposes the company to market risk as lease for nearly 10 lakh square feet of area is yet to be tied up; however, this risk is partly mitigated by the healthy pipeline of enquiries and the propitious discussions with other prospective tenants.

ICRA notes that the company's tenants primarily comprise of e-commerce players, which are expected to have comparatively modest impact on the business prospects due to COVID-19; however, risk arising out of recessionary economic environment and the resultant pushback on new capacity expansion plans by the prospective tenants may elongate the incremental leasing timeline of the project.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the company will benefit from its strong parentage and the experienced management.

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[1] EWPL has acquired 7-acres of land on its books while another 12-acres of land has been acquired under a special purpose vehicle (SPV). As per the management, this SPV will be merged into EWPL within next one to two years. To arrive at the rating, ICRA has considered this additional land and its impact on the project cost as well as future rental inflows.

Key rating drivers and their description

Credit strengths

Experienced promoters with long track record in real-estate sector globally – ESR Group has an established track record of developing and leasing of over 160 mn sqft of logistic and industrial parks globally with over USD 22 billion in total assets under management as on December 31, 2019. The Group's India management is vastly experienced in developing and leasing logistics and industrial parks in India. Additionally, the Group is adequately funded to support its India growth plans, as it is backed by strong investors including Warburg Pincus, APG, Allianz and Goldman Sachs. EWPL is a step-down subsidiary of ESR India Logistics Fund Pte. Ltd. ('the Fund'). The Fund was initially set-up by ESR Group but in November 2018 Allianz Group (Allianz SE, the ultimate holding company of Allianz Group, has rating outstanding of Aa3 by Moody's Investor Services) acquired 50% stake in the Fund.

Healthy financial policy of the promoter group – ICRA also takes note of the management commitment to maintain moderate leveraging in the projects during the construction stage as well as post commissioning. As per its policy, typically under construction project debt funding is around 55% while for stabilised projects it stands at around 65%. With increase in scope, the overall project cost is expected to get revised to around Rs. 700 crore which is planned to be funded 55% to 60% through debt and remaining through equity and customer advances. The presence of escrow structure and DSRA equivalent to three months of interest and principal payments for the construction finance debt and proposed lease rental discounting (LRD) debt provides rating comfort.

Healthy leasing performance supported by the Project's strategic location– The project is in Uluberia, Kolkata, which is located favourably in terms of access to some of the key cities such as Kolkata and Kharagpur. The identified land parcel has good accessibility from Kolkata (45 km) and is located on NH6, which is a part of the Golden Quadrilateral. Kolkata warehousing market has limited Grade-A Warehousing assets and thus, EWPL has witnessed healthy leasing performance so far. As of December 31, 2019, EWPL has tied up leasing agreement for nearly 12 lakh square feet of leasable area with MNCs with strong tenant profile.

Credit challenges

Exposed to market risk due to increase in project scope – In Q4 FY2020, EWPL has acquired 19 acres of contiguous land parcel which has led to increase in total leasable area to 23 lakh square feet. Even as the lease tie-up for the project has been healthy so far, nearly 50% of the total leasable area has been tied up till December 31, 2019, the ability to tie-up leases for remaining part will remain a key rating monitorable.

Exposed to moderate execution risk – As of December 31, 2019, the company has incurred around 40% of the project cost which exposes it to execution risk. However, the execution pace is expected to remain healthy in line with the leasing progress.

Liquidity position: Adequate

EWPL's liquidity is adequate supported by undrawn sanctioned construction finance debt of Rs. 118 crore (as on December 31, 2019), proposed LRD of around Rs. 100 crore and additional equity (as per management's financial policy). With the commencement of rentals from another 25% of the chargeable area in FY2021 would provide additional funding cushion. ICRA also notes the company's financial flexibility by virtue of it being a part of the ESR Group as well as the cushion available in the form of DSRA.

Rating sensitivities

Positive triggers – ICRA could upgrade EWPL's rating if the company demonstrates considerable increase in incremental leasing at adequate rates. Cumulative DSCR of greater than 1.25 times could lead to an upgrade of EWPL's rating.

Negative triggers – Negative pressure on EWPL's rating could arise if incremental leasing is lower than anticipation. Any increase in construction cost and resultant increase in debt level will also put pressure on the rating. Specific ratio leading to a rating downgrade would be cumulative DSCR of less than 1.10 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals
Parent/Group Support	-
Consolidation/Standalone	Standalone

About the company

EWPL, a part of the ESR Group, was incorporated on May 17, 2018 to develop and lease industrial park/ logistics facility. EWPL is developing an industrial and logistic park on a land parcel (aggregating 93.59 acres), taken on a long-term lease from West Bengal Industrial Development Corporation. The industrial park/ logistics facility would have total leasable area of 23 lakh square feet.

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, Allianz, Ping An and SK Holdings. Based out of Hong Kong and Singapore, it owns and manages over 160 msf of assets in Australia, China, India, Japan, Singapore and South Korea. The group has over USD 22 billion in total assets under management as on December 31, 2019. 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)

	FY2018	FY2019
Operating Income (Rs. crore)	NA	NA
PAT (Rs. crore)	NA	NA
OPBDIT/OI (%)	NA	NA
RoCE (%)	NA	NA
Total Outside Liabilities/Tangible Net Worth (times)	NA	NA
Total Debt/OPBDIT (times)	NA	NA
Interest Coverage (times)	NA	NA
DSCR	NA	NA

Note: The company was incorporated in FY2019 and financials for previous years are not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2020		FY2019		FY2018
					13-Apr-2020	13-Sep-2019	25-Jun-2019	28-Feb-2019	13-Nov-2018	-
1	Term Loan	Long Term	225.00	106.2	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-	-	-
2	Unallocated	Long-Term	-	-	-		Provisional [ICRA]BBB (Stable)	Provisional [ICRA]BBB (Stable)	Provisional [ICRA]BBB (Stable)	

Amount in Rs. Crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2019	NA	FY2023	225.00	[ICRA]BBB(Stable)

Source: EWPL

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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