

June 29, 2020

Concepts International India Private Limited: [ICRA]BBB (Stable); Assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based Term Loan	143.0	[ICRA]BBB (Stable); Assigned
Total	143.0	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating draws strength from Concepts International India Private Limited's (CI IPL/ the company) strong sponsor group, the Blackstone group. The Group, through its affiliates, owns 100% of the company. The sponsor is one of India's leading office landlords (over 690 lakh sq. ft. of office space across key metros and tier-I cities) and enjoys established leasing relationship with several blue-chip multinational companies and Indian corporates. CI IPL is likely to derive operational and financial synergies from the proven track record and the diverse portfolio of its sponsors. The rating also factors in the favourable location of CI IPL's sole property, 'Concept Tech Park' (CTP), at Udyog Vihar in Gurugram, which enjoyed 100% occupancy as on March 31, 2020. The rating also takes into account the presence of structural features such as escrow mechanism, which ensures transparency in cash flows, and the Debt Service Reserve account (in the form of fixed deposit of Rs. 4 crore as on March 31, 2020), which is equivalent to three months of debt service obligation. The liquidity profile of the company is adequate, which underpins the rating.

The rating, however, is constrained by the high tenant concentration risk as the entire area is leased out to two companies belonging to the same group. Hence vacancy by the tenants and any delay in monthly rentals will significantly impact the cash flow position of the company. However, the long-term leases with weighted average balance lease tenure of 7.5 years as on March 31, 2020, provides some comfort. Given the fact that the leases are recently tied up with a lock-in period of five years for both the tenants, there are no leases expiring or falling due for escalation in the near term. However, the vacancy and rental escalation risks are exacerbated considering the adverse impact of the Covid-19 pandemic on the business prospects of all tenants and thereby exerting pressure on their cash flows. The increasing acceptability of work-from-home option among corporates due to the Covid-19 pandemic could alter the way in which corporates function, resulting in possible rationalisation of office space requirement. Therefore, the risk of rental re-negotiations and vacancy are high. However, competitive in-place rental rates will mitigate the re-leasing risk to some extent in case of vacancy. The rating is further constrained by the geographically concentrated operations as the entire leasable area is at a single location in Gurugram. However, the same is mitigated to an extent with the project being a part of Blackstone Group which has projects in geographically diverse locations. The rating is constrained by the moderate debt coverage indicators, with cumulative cash flow cover of around 1.10 times as per ICRA's base case estimates. The rating is also exposed to interest rate risk because of floating interest rate with an option of spread reset. Though the current cumulative cash coverage indicator remains adequate, any pressure on the same due to volatility in interest rates will remain a risk.

While assigning the rating, ICRA has taken note of the delay in rental payments by both the tenants in Q1FY2021. The company has not received the rental income; however, its liquidity position was adequate to service debt repayment obligation in Q1FY2021.

Key rating drivers and their description

Credit strengths

Strong sponsor group with established track record and diverse portfolio – The company is 100% owned by the Blackstone group through its affiliates. The sponsor is one of India's leading office landlords (over 690 lakh sq. ft. of office space across key metros and tier-I cities) and enjoys established leasing relationship with several blue-chip multinational companies and Indian corporates. CIPL is likely to derive operational and financial synergies from the proven track record and the diverse portfolio of its sponsors.

Favourable location and good connectivity enhances project's attractiveness – Spread over 1.85 acre, 'Concept Tech Park, is in Udyog Vihar, Gurugram and is well connected to various parts of the city. The property is ~10 km from Indira Gandhi International airport and is close to National Highway (NH-8), IFFCO Chowk metro and rapid metro stations. The project benefits from the attractive location and the healthy demand for office space in the micro market because of limited supply and relatively large absorption.

Healthy occupancy levels at 100% as on March 31, 2020 – Concept Tech Park started operations in October 2018 and the entire area was leased out to two companies of the same group as on March 31, 2020.

Presence of structural features such as escrow and DSRA – The company has created a Debt Service Reserve account (DSRA) in the form of a fixed deposit of Rs. 4 crore as on March 31, 2020, which is equivalent to three months of debt service obligation. The receivables are routed through an escrow mechanism, which ensures transparency in cash flows. Presence of DSRA, coupled with adequate liquidity profile of the company, underpins the rating.

Credit challenges

High tenant concentration risk– The property was completely leased out to two companies as on March 31, 2020. Hence, the vacancy by the tenants and any delay in monthly rentals will significantly impact the cash flow position of the company. However, competitive rental and the long-term leases with weighted average balance lease tenure for the property pegged at 7.5 years as on March 31, 2020, provides some comfort.

Moderate coverage indicators– The projected debt coverage indicators are moderate, with cumulative cash flow cover of around 1.10 times as per ICRA's base case estimates. The coverage indicators are likely to weaken in the medium to long term. Ability to improve cost efficiencies and charge higher rental post expiry of the current lease agreement will be essential to maintain adequate coverage indicators.

Exposure to vacancy and rental escalation risks as well as asset concentration risk – According to the terms of the lease agreement, both the tenants have lease tenure of nine years, with a lock-in period of five years. Given the fact that the leases were recently tied up, there are no leases expiring or falling due for escalation in the near term. However, the risk is exacerbated considering the adverse impact of the Covid-19 pandemic on the business prospects of all tenants and thereby exerting pressure on their cash flows. The increasing acceptability of work-from-home option among corporates due to the Covid-19 pandemic could alter the way in which corporates function, resulting in possible rationalisation of office space requirement. Therefore, the risk of rental re-negotiations and vacancy are high. Further any material weakening of the financial profile of key tenants could result in elongation of CIPL's receivable cycle. The project is also exposed to geographically concentrated operations as the entire leasable area is at a single location in Gurugram. However, the same is mitigated to an extent with the project being a part of Blackstone Group which has projects in geographically diverse locations.

Vulnerability to interest rate fluctuations – CIPL's cash flows are exposed to interest rate risk because of the floating interest rate with an option of spread reset. Though the current cumulative cash coverage indicator remains adequate, any pressure on the same due to volatility in interest rates will remain a risk.

Liquidity position: Adequate

The company has adequate liquidity, with unencumbered cash and bank balance of Rs. 6.6 crore as on March 31, 2020. Further, CIPL has Debt Service Reserve account (DSRA, in form of fixed deposit) of Rs. 4.0 crore as on March 31, 2020 which is equivalent to three months of debt service obligation. The company has a debt repayment obligation of Rs. 3.0 crore in FY2021, which is estimated to be adequately serviced through operating cashflows.

Rating sensitivities

Positive triggers – Higher-than-estimated rental escalation or favourable change in debt terms that significantly change debt coverage metrics (improvement in Cumulative DSCR to above 1.25 times) could be a positive trigger.

Negative triggers – Downward pressure on the rating might emerge if the occupancy level of the company's existing property declines significantly for a considerable period; or there are persistent delays in monthly rent payments or there is re-negotiation of lease contracts due to the impact of the Covid-19 pandemic on the business prospects of the tenants. Specific credit metrics that could lead to a downgrade of CIPL's rating include cumulative DSCR declining below 1.05 times on a sustained basis.

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	For arriving at the rating, ICRA has taken a consolidated view of Yashita Buildcon Limited and Concepts International India Private Limited due to strong operational and financial linkages as well as fungibility of cashflows.

About the company

Incorporated in 2007 and converted into a partnership firm in April 2014 and later into a private limited company on June 07, 2019; Concepts International India Private Limited (CIPL) is a part of Blackstone Group (Blackstone Group holds 100% in CIPL through a holding company named Yashita Buildcon Limited (YBL)). The company has developed a commercial property named 'Concept Tech Park', located at Udyog Vihar, in Gurgaon. The project comprises commercial office space with one building, which is operational, and has a total leasable area of 2.4 lakh sq. ft. YBL undertakes the common area maintenance (CAM) services of the property against a fixed price contract of Rs.5 crore every year with CIPL. CIPL and YBL are in the process of getting merged. Post-merger, this arrangement will fall off and CIPL will be undertaking CAM on its own.

Key financial indicators

	FY2019 (Audited)	FY2020 (Provisional)*
Operating Income (Rs. crore)	10.4	23.3
PAT (Rs. crore)	3.1	-2.6
OPBDIT/OI (%)	86.6%	72.3%
RoCE (%)	13.0%	14.2%
Total Outside Liabilities/Tangible Net Worth (times)	-4.9	-3.4
Total Debt/OPBDIT (times)	13.9	8.9
Interest Coverage (times)	1.6	1.2
DSCR	0.81	1.09

*The company was converted from LLP to Private Limited company on June 07, 2019.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding as on Mar 31, 2020	Rating 29-Jun-2020	FY2020	FY2019	FY2018
1	Term Loan	Long Term	143.0	133.4	[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	March 2020	8.95%	May 2031	143.0	[ICRA]BBB (Stable)

Source: CIPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Yashita Buildcon Limited	100.0%*	Full Consolidation

*CIPL is a wholly owned subsidiary of YBL.

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