August 24, 2020

IndoSpace Industrial Park Pune Private Limited: Rating upgraded to [ICRA]AA+(Stable) and withdrawn for term loan facility; [ICRA]AA+ (Stable) assigned to long-term facilities

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	146.09	0.0	[ICRA]AA+ (Stable); upgraded from [ICRA]A(Stable) and Withdrawn
Term Loan	0.0	106.76	[ICRA]AA+ (Stable); Assigned
Overdraft	0.0	35.59	[ICRA]AA+ (Stable); Assigned
Total	**146.09**	**142.35**	

**Instrument details are provided in Annexure-1*

Rationale

IndoSpace Logistics Parks Core Pte. Ltd. (IndoSpace Core) is a joint venture between Everstone-backed real estate developer and warehousing and logistics specialist IndoSpace (2% stake), investor Canada Pension Plan Investment Board (CPPIB – 93% stake) and global investment fund manager GLP (5% stake). The current asset portfolio of IndoSpace Core has 13 completed industrial and logistic parks (housed under 18 special purpose vehicles (SPVs))[1] with a leasable area of 11.8 million square feet (mn sq ft). ICRA has assigned a long-term rating of [ICRA]AA+ (Stable) to Rs. 915.8 crore (comprising term of Rs. 824.4 crore and overdraft of Rs. 91.4 crore) availed from HSBC. ICRA has taken a consolidated view on all 18 SPVs because of the common management, business linkages and cash flow fungibility, supported by cash flow pooling mechanism and cross collateralisation.

The assigned rating favourably factors in the diversified portfolio of industrial and logistics park assets under the IndoSpace Core platform. The current asset portfolio has a leasable area of 11.8 million square feet (mn sq ft), which includes completed area of 11.74 mn sq ft and future development potential of 0.07 mn sq ft. The completed area enjoys a healthy committed occupancy of ~91% as on June 30, 2020. The portfolio assets are spread across four key markets of India – Pune, Chennai, Haryana, Bengaluru and have a diversified tenant mix, wherein the top 10 tenants contribute to ~54% of the gross rentals. The rating draws comfort from the proven track record and the experienced management of the IndoSpace Group in the industrial and logistics parks segment.

The rating considers the strong financial risk profile characterised by low leverage of the portfolio (loan to asset value (LTV) of 20% as on July 31, 2020), strong debt coverage metrics with an estimated Debt/Net Operating Income (NOI)[2] of ~3.1 times in FY2021 and superior liquidity position. Cash flow fungibility across the assets, due to the cross collateralised structure, lends strength to the financial risk profile. Strong financial profile of the sponsors, CPPIB and GLP Global, further provides financial flexibility to the portfolio. ICRA believes that its credit profile will be supported by the conservative leverage policy of the management. IndoSpace Core has a policy of acquiring stabilised assets, which

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[1]*Rohan Cityscape Private Limited, Rohan Realtors (Pune) Private Limited, Ambition Logistics Park Private Limited, IndoSpace Industrial Park Pune Private Limited, Destination Industrial Parks Private Limited, IndoSpace Rohan Industrial Park Private Limited, IndoSpace Rohan Industrial Park Khed Private Limited, IndoSpace Rohan Industrial Park Mahalunge Private Limited, IndoSpace Rohan Industrial Park Pune Private Limited, IndoSpace AS Industrial Park Private Limited, Suyog Logistics Park Private Limited, IndoSpaceBommasandra Logistics Park Private Limited, IndoSpace FWS Industrial Park Private Limited, HCY Warehousing Private Limited, HCY Industrial Parks Private Limited, IndoSpace SKCL Industrial Park Oragadam Private Limited, IndoSpace Industrial Parks Private Limited, IndoSpace SKCL Industrial Park Private Limited*

[2]*Net Operating Income (NOI) is defined as revenue from operations less direct expenses*

reduces the risk of weakening of the consolidated business risk profile. Furthermore, as per discussion with the management, any new acquisition will be funded by a conservative debt-to-equity mix and the same will ensure maintenance of low leverage going forward.

The rating, however, is constrained by its exposure to market risks, which may get accentuated due to the Covid-19 pandemic. The portfolio has demonstrated healthy rent collection track record of 92% in Q1 FY2021, indicating marginal impact of the pandemic. Nevertheless, ICRA notes that ~27% of the leased area will be due for expiry over the next three years and any prolonged impact of the pandemic and the resultant weakness in the business prospects of tenants may increase vacancy. The vacancy risk is also heightened in case of some of the portfolio assets on account of their average rentals being higher than prevailing market rentals. The risk is, however, partly mitigated by the management's demonstrated track record of renewal of leases in the past and its stated guidance of prioritising occupancy levels. ICRA notes that the tenure of the debt is five years, wherein 75% of the debt has to be paid as bullet repayment on April 16, 2025 (FY2026). This debt structure exposes the portfolio to refinancing risk. ICRA draws comfort from the company's financing flexibility arising due to strong financial profile of the promoters and a demonstrated track record of refinancing its debt in the past. Further, estimated comfortable portfolio leverage at the time of refinancing mitigates the risk to a large extent.

The Stable outlook on the [ICRA]AA+ rating reflects ICRA's opinion that owing to the well-diversified nature of the portfolio, it will remain resistant to any large reduction in occupancy or rental collections over the medium term. Further, in line with the conservative leverage policy of the management, the financial risk profile is expected to remain comfortable.

Key rating drivers and their description

Credit strengths

Well diversified portfolio of assets with adequate tenant profile – The current asset portfolio of IndoSpace Core has 13 completed industrial and logistic parks (housed under 18 special purpose vehicles) with a leasable area of 11.81 mn sq ft (includes completed area of 11.74 mn sq ft and 0.07 mn sq ft of future development potential area). The completed area enjoys healthy committed occupancy of ~91% as on June 30, 2020. The portfolio assets are spread across four key markets of India – Pune, Chennai, Haryana, Bengaluru and have a diversified tenant mix with top 10 tenants contributing to ~54% of the gross rentals. Some of its key tenants in the portfolio are Ikea, DHL, Ericsson, Nissan and Competition Team.

Leadership position and established track record of sponsors – The IndoSpace Group is India's leading developers of industrial and warehousing parks. IndoSpace Group develops industrial and logistics parks catering to logistics infrastructure needs of leading players across various sectors including automobiles, e-commerce, FMCG, third-party logistics and manufacturing among others. It has a portfolio of around 36 mn sq ft across 35 logistics and industrial parks (including developed and under-development parks) across eight cities in India as of January 2020. The Group has an established track record of operating industrial and logistics parks in India. The Group, being an investment manager, supports the business risk profile of the portfolio.

Strong financial risk profile – The consolidated debt of the portfolio outstanding as on March 31, 2020 was Rs. 1,027.3 crore (comprising external debt of Rs. 909.1 crore and compulsory convertible debenture of Rs. 118.3 crore). On April 17, 2020, IndoSpace Core availed a term loan of Rs. 824.4 crore from the Hongkong and Shanghai Banking Corporation Limited (HSBC) to refinance its external debt of Rs. 909.1 crore[3] from various lenders. HSBC has sanctioned an overdraft limit of Rs. 91.4 crore, which remains unutilised as on July 31, 2020. The portfolio has a strong financial risk profile characterised by low leverage of the portfolio (loan to asset value (LTV) of 20% as on July 31, 2020), strong debt coverage metrics with estimated Debt/Net Operating Income (NOI) of ~3.1 times in FY2021 and superior liquidity position. Cash

[3] *The balance external debt was paid through internal accruals.*

flow fungibility across the assets, due to the cross collateralised structure, lends strength to the financial risk profile. Strong financial profile of the sponsors, Canada Pension Plan Investment Board (CPPIB) and GLP Global, provides financial flexibility to the portfolio.

Credit profile supported by conservative leverage policy – The portfolio credit profile will be supported by the management's conservative leverage policy. The company has a policy of acquiring stabilised assets, which reduces the risk of weakening of the consolidated business risk profile. Furthermore, as per discussion with the management, any new acquisition will be funded by a conservative debt-to-equity mix and the same will ensure maintenance of low leverage going forward.

Credit challenges

Vulnerability to market risks – The portfolio is exposed to market risks, which may get accentuated due to the Covid-19 pandemic. The portfolio has demonstrated healthy rent collection track record of 92% in Q1 FY2021, indicating marginal impact of the pandemic. Nevertheless, ICRA notes that ~27% of the leased area will be due for expiry over the next three years and any prolonged impact of the pandemic and the resultant weakness in business prospects of tenants may increase vacancy. The vacancy risk is also heightened in case of some of the portfolio assets on account of their average rentals being higher than the prevailing market rentals. The risk is, however, partly mitigated by the management's demonstrated track record of renewal of leases in the past and stated guidance of prioritising occupancy levels.

Exposure to refinancing risks – The tenure of the debt is five years, wherein 75% of the debt has to be paid as bullet repayment on April 16, 2025 (FY2026). This debt structure exposes the portfolio to refinancing risk. ICRA draws comfort from the financing flexibility arising due to strong financial profile of the promoters and its demonstrated track record of refinancing its debt in the past. Further, estimated comfortable portfolio leverage at the time of refinancing mitigates the risk to a large extent.

Liquidity position: Superior

The liquidity position of IndoSpace Core is **superior**, supported by the stable rental income from the underlying assets and the low operational expenditure in the leasing business. Healthy fund flow from operations will be adequate to cover the debt servicing obligations. The average monthly principal and interest obligations in FY2021 are estimated at Rs. 7.9 crore, while the average monthly net operating income is expected to be upwards of Rs. 23 crore. Additionally, the consolidated portfolio has cash and bank balances of Rs. 206.0 crore including DSRA of Rs. 25.7 crore as on June 30, 2020. Further, its portfolio includes unutilised overdraft limit of Rs. 91.4 crore as on June 30, 2020, which enhances the liquidity profile.

Rating sensitivities

Positive triggers – Demonstration of strong leasing, healthy collections, continuing low vacancies and adequate rental rates on a sustainable basis may trigger a rating upgrade. Additionally, maintaining a low leverage remains essential for any positive rating movement.

Negative triggers – Negative pressure on IndoSpace Core's rating could arise if higher-than-anticipated borrowing or a decline in the net operating income increases the Net Debt/NOI to above 4.5 times. The rating could also face downward pressure in case there is a large vacancy for a prolonged period.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Debt Backed by Lease Rentals (Lease Rental Discounting Loans) ICRA Policy on Withdrawal and Suspension of Credit Rating Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of 18 SPVs housed under IndoSpace Logistics Parks Core Pte. Ltd. (as mentioned in Annexure-2) given the common management, business linkages and cash flow fungibility, supported by cash flow pooling mechanism and cross collateralisation.

About the company

Incorporated in 2010, IndoSpace Industrial Park Pune Private Limited is a wholly-owned subsidiary of IndoSpace Logistics Parks Core Pte. Ltd. The company, along with Ambition Logistics Park Private Limited, operates a logistics and Industrial park named Chakan III in Chakan, Pune (Maharashtra). The project is developed on a land parcel of 57 acres with a total leasable area of 13.69 lakh sq. ft., which has a committed occupancy of 82% as on June 30, 2020.

IndoSpace Logistics Parks Core Pte. Ltd. (IndoSpace Core) is a joint venture between Everstone-backed real estate developer and warehousing and logistics specialist IndoSpace (2% stake), investor Canada Pension Plan and Investment Board (CPPIB – 93% stake) and global investment fund manager GLP (5% stake). The current asset portfolio of IndoSpace Core has 13 completed industrial and logistic parks (housed under 18 special purpose vehicles) with a leasable area of 11.8 million square feet (includes completed area of 11.74 mn sq ft and 0.07 mn sq ft of under-construction area). The completed area enjoys healthy committed occupancy of ~91% as on June 30, 2020. The portfolio assets are spread across four key markets of India – Pune, Chennai, Haryana, Bengaluru.

Key financial indicators (audited)

	FY2019*	FY2020*
Operating Income (Rs. crore)	272.2	318.9
PAT (Rs. crore)	34.0	36.9
OPBDIT/OI (%)	81.0%	83.5%
PAT/OI (%)	12.5%	11.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.2
Total Debt/OPBDIT (times)	4.7	3.9
Interest Coverage (times)	2.5	2.6

**Consolidated for the portfolio, Key Financial Indicators for FY2020 are based on provisional results*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore, as on July 31, 2020)	Rating	FY2020	FY2019	FY2018
					24-Aug-2020	30-Apr-2019	-	12-Jan-2018
1	Term Loan	Long-Term	0.00	0.00	[ICRA]AA+ (Stable); Withdrawn	[ICRA]A(SO) (Stable)	-	[ICRA]BBB (Stable)
2	Term Loan	Long-Term	106.76	105.40	[ICRA]AA+ (Stable)	-	-	-
3	Overdraft	Long-Term	35.59	0.00	[ICRA]AA+ (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	Apr-2020	6.43%	Apr-2025	106.76	[ICRA]AA+ (Stable)
NA	Overdraft	-	-	-	35.59	[ICRA]AA+ (Stable)

Source: IndoSpace Core

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Rohan Cityscape Private Limited	100.0%	Full Consolidation
Rohan Realtors (Pune) Private Limited	100.0%	Full Consolidation
Ambition Logistics Park Private Limited	100.0%	Full Consolidation
IndoSpace Industrial Park Pune Private Limited	100.0%	Full Consolidation
Destination Industrial Parks Private Limited	100.0%	Full Consolidation
IndoSpace Rohan Industrial Park Private Limited	100.0%	Full Consolidation
IndoSpace Rohan Industrial Park Khed Private Limited	100.0%	Full Consolidation
IndoSpace Rohan Industrial Park Mahalunge Private Limited	100.0%	Full Consolidation
IndoSpace Rohan Industrial Park Pune Private Limited	100.0%	Full Consolidation
IndoSpace AS Industrial Park Private Limited	100.0%	Full Consolidation
Suyog Logistics Park Private Limited	100.0%	Full Consolidation
IndoSpace Bommasandra Logistics Park Private Limited	100.0%	Full Consolidation
IndoSpace FWS Industrial Park Private Limited	100.0%	Full Consolidation
HCY Warehousing Private Limited	100.0%	Full Consolidation
HCY Industrial Parks Private Limited	100.0%	Full Consolidation
IndoSpace SKCL Industrial Park Oragadam Private Limited	100.0%	Full Consolidation
IndoSpace Industrial Parks Private Limited	100.0%	Full Consolidation
IndoSpace SKCL Industrial Park Private Limited	100.0%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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