

September 30, 2020

NV Realty Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	140.0	140.0	[ICRA]A- (Stable); reaffirmed
Total	140.0	140.0	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the rating, ICRA has taken a consolidated view on NV Realty Private Limited (NVR) and its group company, NV Projects Private Limited (NVP), given the cross holdings, strong operational, financial and managerial linkages between the two companies.

The reaffirmation of the rating and the outlook takes into account strong operational profile of the property owned by NVR and NVP, named Belvedere (erstwhile Weikfield IT City Infopark), located in Viman Nagar, Pune. The Xander Group (a Singapore-based private equity group), completed acquisition of the assets in August, 2019 in line with ICRA's expectations, at an enterprise value of approximately Rs. 900 crore, funded through Rs. 370 crore of bank debt, with the balance being funded by sponsor funds. The asset's favourable location and development quality have resulted in 100% occupancy (up from 97.5% in August 2019) across its three blocks, spread over 1.08 million square feet (msf) of leasable area, with stable rental generation. Weighted average lease rentals have also witnessed an increase of 33% over the past year, with new leasing/re-leasing happening at favourable rates. Although 75% of the area is occupied by the top five tenants alone, which leads to high tenant concentration risks, ICRA notes that the tenants comprise reputed business houses, such as Maersk and WNS, and most key tenants having been associated with the property since inception, which moderates counterparty and vacancy risks to a considerable extent. Moreover, low average rentals relative to prevailing market rates for the micro-market, as well as investments made by tenants towards fit-outs also aid tenant stickiness to an extent. Parentage of The Xander Group (a Singapore-based private equity group), which has an established track record of acquiring, developing and leasing assets in India, has further supported the operational profile of the asset. The bank debt, being availed in the form of non-convertible debentures (NCDs) and term loans (TLs), is expected to have a favourably structured ballooning repayment pattern, which, together with the adequate lease rental generation, is likely to keep the cash flow cover (net rental/principal + interest payment) at a healthy level over the tenure of the debt. Further, the presence of a debt service reserve account (DSRA) equivalent to one month of interest and principal repayment, an escrow structure, DSCR and occupancy linked cash traps provide additional comfort. ICRA also notes that sponsor funds, in the form of compulsorily convertible debentures (CCDs), will remain subordinated to the bank debt, and will not have any default calling rights. The company has also maintained adequate liquid balances, amounting to ~Rs. 23.5 crore as on March 31, 2020.

ICRA's rating is however constrained by the modest scale of operations, which are limited to a single asset in the Pune market, thereby exposing the consolidated entity to fluctuations in a single asset/market's performance. Tenant concentration risks are also high, with the top five tenants occupying around 75% of the leasable area. Bunching of lease expiries over the next few years, with around 22% of the leased area coming up for renewal in FY2022, together with an occupancy linked cash trap/event of default covenant for the rated debt, which requires occupancy to be maintained at a minimum level of 85%, further accentuates these risks, although ICRA notes that a six-month curing period is provided to

achieve the minimum occupancy level before an event of default is triggered. Moreover, tenant stickiness has been high thus far. ICRA also notes the exposure to refinancing risks arising from the presence of a put option on the bank debt at end of 36, 60 and 90 months from the date of debt disbursement, although the debt raising potential on rentals is expected to be sufficient for the required refinancing, should such a need arise. The company also faces prepayment risks associated with the possibility of debt acceleration upon breach of a rating-linked covenant specified in the bank sanction, although adequate cushion exists at the current rating level.

The Stable outlook on the long-term rating reflects ICRA's expectation that the credit profile of NVP will remain supported by high occupancy and adequate average lease rentals. ICRA notes that lease rentals have remained largely unimpacted by the Covid-19 outbreak until now, given the strong tenant profile of the assets, with the same comprising mostly IT majors and logistics players. The presence of a DSRA equivalent to one month of interest and principal payment, along with strong parentage of The Xander Group provides further comfort.

Credit strengths

Parentage of The Xander Group, which has an established track record of acquiring, developing and leasing assets: The Xander Group (a Singapore-based private equity group) has an established track record spanning almost 1.5 decades of acquiring and developing assets in India and putting the same on lease, which is expected to benefit GOPL as well. It's current Indian office portfolio comprises developed/under development properties and future development potential amounting to approx 12.4 mn sqft. In line with ICRA's expectations, the Group completed acquisition of Belvedere in August, 2019 at an enterprise value of approximately Rs. 900 crore, funded through Rs. 370 crore of bank debt, with the balance being funded by sponsor funds.

Favourable location and profile of asset, with 100% occupancy and competitive rental rates: Belvedere is favourably located in Viman Nagar which is in Pune's SBD East micro-market, wherein there is healthy demand for commercial office space. The favourable location, along with the quality of development and the competitive rental rates have supported 100% occupancy levels (up from 97.5% in August 2019) and stable lease rental generation. Weighted average lease rentals have also witnessed an increase of 33% over the past year, with new leasing/re-leasing happening at favourable rates. Tenants mostly comprise reputed business houses, such as Maersk and WNS, which moderates counterparty risks to a considerable extent. Tenant stickiness has also been high, with most key tenants having been associated with the property since inception.

Favourable structure of debt : The bank debt being availed for the acquisition is favourably structured, with an extended and ballooning repayment pattern, spread over twelve years. Further comfort is drawn from the presence of an escrow mechanism which prioritizes debt repayment over any other utilization, and adequate cushion between rental receipt and EMI due dates. In addition, maintenance of a DSRA equivalent to one month's of interest and principal repayment, DSCR and occupancy linked cash traps provide additional comfort. While put options present with the lender at the end on 36 months, 60 months and 90 months results in some exposure to refinancing risks, ICRA expects the debt raising potential on rentals to be sufficient for the required refinancing, should such a need arise.

ICRA also notes that the CCDs are to remain subordinated to the bank debt, and will not have any default calling rights. The ownership of the CCDs and the equity shareholding is also expected to remain common until the time of exit of the investor.

Adequate cash flow cover projected on total external debt – The interest rate and elongated debt maturity profile on the debt, together with the healthy lease rentals, given the 100% occupancy as on date, is likely to keep the cash flow cover adequate through the tenure of the loan. The cumulative consolidated DSCR over the debt tenure is estimated to be 1.51 times.

Credit challenges

Modest scale of operations: NVR and NVP own different blocks of a single asset of 1.08 msf leased area, and hence remain susceptible to any adverse changes in the operational profile of the asset, as well in the demand-supply scenario of the particular micro market in which the asset is located. Further the company's cash flows remain susceptible to adverse changes in occupancy levels and rental rates, and the continued ability to renew leases at favourable rates as well as maintain high levels of occupancy will remain essential going forward.

Tenant concentration and vacancy risks: Tenant concentration is high with 75% of the area being occupied by the top five lessees, thus exposing the company to market risks in case of any vacancy / non-renewal of lease. The risks are further accentuated by the bunching of lease expiry (~22% of the total leasable area) coming up for in FY2022. Moreover, ICRA also notes that the bank sanction also contains an occupancy linked cash trap/event of default covenant, which requires occupancy to be maintained at a minimum level of 85%, although a six-month curing period is provided to achieve the minimum occupancy level before an event of default is triggered. However, tenant stickiness has been high thus far, supported by the competitive rental rates of the property and the investments made by the tenants towards fit outs, which mitigates the risks to some extent.

Exposure to refinancing risks and prepayment risks in case put options or rating-linked covenants are exercised: The lender of the debt being availed as a part of the acquisition transaction has a put option on the amount at end of 36 months, 60 months and 90 months from the date of debt disbursement. This exposes the consolidated entity to refinancing risks, although ICRA notes that the debt raising potential on the rentals generated from the asset is expected to be sufficient for the required refinancing, should such a need arise. With a notice of at least 30 days being required prior to exercise of the put option, adequate time is also available for organizing the refinancing. The company also faces prepayment risks associated with the possibility of debt acceleration upon breach of a rating-linked covenant specified in the bank sanction, although adequate cushion exists at the current rating level.

Liquidity position: Adequate

ICRA expects NVP to generate stable cash flows from operations over the near to medium, aided by healthy occupancy and stable average lease rentals. Adequate cover (cumulative DSCR of 1.52 times) over the repayment obligations for the bank debt, presence of a DSRA equivalent to one month of interest and principal payment, DSCR and occupancy linked cash traps and Rs. 23.5 crore cash available as on March 2020 provide additional comfort.

Rating sensitivities

Positive triggers – ICRA could upgrade NVP and NVR rating in case of higher than expected cashflows generation backed by factors such as favorable re-leasing and consequent reduction of leverage on a consolidated basis over the near term. Specific credit metrics that could lead to an upgrade of rating include average DSCR over loan tenure increasing to 1.7 times on a sustained basis, given the occupancy linked event of default trigger and the rating-linked acceleration clause for the rated bank debt.

Negative triggers – Negative pressure on the rating could arise in case of a sustained drop in occupancy levels, the risks for which are exacerbated by the large spaces occupied by certain tenants, or higher-than-expected debt build up, leading to lower-than-expected cash cover and deterioration in leverage indicators. Specific credit metrics that could lead to a downgrade of rating include average DSCR over loan tenure declining below 1.30 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 ratings, ICRA has taken a consolidated view of NV Realty Private Limited (NVR) and its group company, NV Projects Private Limited (NVP), given the strong operational, financial and managerial linkages between the two companies.

About the company

NV Realty Private Limited and NV Projects Private Limited own different blocks of a commercial property named Belvedere (erstwhile Weikfield IT City Info Park) in Viman Nagar, Pune. The property is spread over approximately 1.08 msf, divided over across 3 blocks - Block B (0.27msf), Block C (0.27 msf) and Block D (0.54 msf), and is currently 100% leased to reputed tenants. It was developed over the period 2006-12 by Vascon Engineers Limited, Pune and was acquired by New Vernon Capital Group in phases from 2005 onwards. In August, 2019, The Xander group (a Singapore-based private equity group) acquired the said companies and the underlying asset at an enterprise value of around ~Rs. 900 crore.

Key financial indicators (audited) - Standalone

	FY2019	FY2020
Operating Income (Rs. crore)	46.9	50.4
PAT (Rs. crore)	5.5	2.3
OPBDIT/OI (%)	72.9%	71.6%
PAT/OI (%)	11.7%	4.5%
Total Outside Liabilities/Tangible Net Worth (times)	10.6	15.7
Total Debt/OPBDITA (times)	4.8	8.2
Interest Coverage (times)	1.9	1.4

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2021)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding * (Rs crore)	Date & Rating in FY2021 30 September-2020	Date & Rating in FY2020 09 August-19	Date & Rating in FY2020 09 July-19	Date & Rating in FY2020 28 June-19
1 Term Loans	Long Term	140.0	135.39	[ICRA]A- (Stable)	[ICRA]A- (SO) (Stable)	Provisional [ICRA]A- (SO) (Stable)	Provisional [ICRA]A- (SO) (Stable)

*as on June 30, 2020

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
NA	Term Loans	August 2019	8.30%	July 2032	140.0	[ICRA]A- (Stable)

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Group Companies		
NV Realty Private Limited	-	Full Consolidation
NV Projects Private Limited	-	Full Consolidation

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