August 09, 2019

NV Realty Private Limited: Provisional rating finalised; rated amount revised

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	141.0	140.0	[ICRA]A-(SO) (Stable); provisional rating finalized
Total	**141.0**	**140.0**	

Note: The SO rating signifies the presence of a Debt Service Reserve Account (DSRA), cash trap, escrow structure and other structural features for the facility

**Instrument details are provided in Annexure-1*

Rationale

The finalization of the rating follows fulfilment of all conditions under the structure as mentioned to ICRA including execution of the transaction documents, and the executed documentation being in line with the drafts shared with ICRA.

The letter SO in parenthesis suffixed to the rating symbol stands for Structured Obligation. Here, the SO rating is assigned due to the presence of a Debt Service Reserve Account (DSRA), cash trap, escrow structure and other structural features for the facilities. An SO rating is specific to the rated issue, its terms, and its structure, and does not represent ICRA's opinion on the general credit quality of the issuer concerned.

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 strong operational, financial and managerial linkages between the two companies.

The assigned rating reflects the strong operational profile of the property owned by NVR and NVP, named Weikfield IT City Infopark, located in Viman Nagar, Pune. The asset's favourable location and development quality have resulted in 100% occupancy levels across its three blocks, spread over 1.08 million square feet (msf) of leasable area, with stable rental generation. 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 risks to a considerable extent. Moreover, the average rentals in the asset being low as compared to the prevailing market rates and investments made by tenants towards fit-outs also mitigate the vacancy risks to an extent. Going forward, ICRA notes that the companies, along with the underlying asset, are being acquired by The Xander Group promoted entities (a Singapore-based private equity group) with an established track record of acquiring and developing assets in India and putting the same on lease. The acquisition, which is currently at an advanced stage, is being carried out at an enterprise value of approx Rs. 896 crore, funded through Rs. 385 crore of bank debt, with the balance being from sponsor funds. It is likely to be completed within this quarter (Q2 FY2020). 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 healthy lease rental generation, is likely to keep the cash flow cover (net rental/principal + interest payment) on the same 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 and a Rs. 10 crore (approximately) undrawn/parked bank line provide additional comfort. ICRA also notes that sponsor funds, which are proposed to primarily be brought in in the form of compulsorily convertible debentures (CCDs), will remain subordinated to the bank debt, and will not have any default calling rights. Based on discussions with the acquirer, ICRA also expects the ownership of the CCDs and the equity shareholding to remain common and with the acquiring party until the time of exit, at which point both the equity shares and the CCDs would be transferred. Completion of the acquisition, as per the terms communicated to ICRA, will remain a critical determinant of the rating, and ICRA will continue to monitor the developments in this regard.

ICRA's rating remains 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 80% of the leasable area. Bunching of lease expiries over the next few years, with around 37% of the leased area coming up for renewal over the period FY2020-FY2022, together with an occupancy linked cash trap/event of default covenant in the bank sanction, 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 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.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that the established operating track record of the asset and competitive advantage in the form of lower-than-market rent rates will continue to support occupancy levels and cash flow generation. Cash flow covers are also expected to remain healthy, post completion of the proposed acquisition as per the terms and conditions communicated to ICRA, the status of which would remain a key rating monitorable. The outlook may be revised to Positive in case of higher than expected rental revisions/escalations leading to healthy growth in rental income and subsequently improved cash covers. The outlook may be revised to Negative in case of a sustained drop in occupancy level or if there is any increase in external debt beyond expected levels.

Key rating drivers

Credit strengths

- **Favourable asset profile**: Weikfield IT City Infopark 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 healthy occupancy levels and lease rental generation. 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.

- **Ongoing acquisition by private equity firm with established track record of acquiring, developing and leasing assets**: NVR and NVP, along with the underlying asset, are in the process of being acquired by The Xander Group promoted entities (a Singapore-based private equity group) at an enterprise value of approx Rs. 896 crore. The acquirer has an established track record spanning almost 1.5 decades of acquiring and developing assets in India and putting the same on lease, which, going forward, is expected to benefit NVR and NVP as well. It's current Indian office portfolio comprises developed/under development properties and future development potential amounting to around 11.4 msf.

The acquisition, which is at an advanced stage at present, is to be funded through Rs. 385 crore of bank debt, with the balance being met by sponsor funds, leading to an external debt/rental ratio of around 4.6 times. The acquisition is likely to be completed within this quarter (Q2 FY2020). Completion of the acquisition, as per the terms communicated to ICRA, will remain a key rating monitorable.

- **Favourable structure of debt for ongoing acquisition; cash flow covers to remain healthy**: The bank debt being availed as a part of the acquisition transaction is favourably structured, with an extended and ballooning repayment pattern, spread over twelve years. This, together with the healthy lease rentals generated by the property, is expected to keep cash flow covers healthy. 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 EMI, DSCR and occupancy linked cash traps and a Rs. 10 crore (approximately) undrawn/parked bank line provide additional comfort.

  ICRA also notes that the CCDs to be brought in by the sponsor 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.

Credit challenges

- **Modest scale of operations:** NVR and NVP own different blocks of a single asset, 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.

- **Tenant concentration and vacancy risks**: Tenant concentration is high with 80% 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 expiries over the next few years, with around 37% of the leased area coming up for renewal over the period FY2020-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. 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 in case put option gets 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 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.

Liquidity Position:

Healthy liquidity going forward, characterized by adequate cover over the repayment obligations for the bank debt to be availed as part of the acquisition transaction. The presence of a DSRA equivalent to one month of interest and principal payment, DSCR and occupancy linked cash traps and a Rs. 10 crore (approximately) undrawn/parked bank line provide additional comfort.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Rating methodology for debt backed by lease rentals Approach for rating debt instruments supported by structural features
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 Weikfield IT City Info Park (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 almost 100% leased to reputed tenants. It was developed over the period 2006-12 by Vascon Engineers Limited, Pune. New Vernon Capital Group acquired stake in the project in phases from 2005 onwards, and currently owns 100% of both companies.

Going forward, The Xander Group promoted entities (a Singapore-based private equity group) propose to acquire the said companies and the underlying asset within Q2 FY2020 at an enterprise value of around Rs. 896 crore.

Key financial indicators (audited) – Standalone

	FY2017	FY2018	10M FY2019*
Operating Income (Rs. crore)	46.20	44.16	38.85
PAT (Rs. crore)	-0.83	3.29	5.14
OPBDIT/OI (%)	60.18%	72.58%	73.85%
RoCE (%)	11.19%	11.73%	13.65%
Total Debt/TNW (times)	60.66	14.58	7.76
Total Debt/OPBDIT (times)	6.59	5.42	4.84
Interest Coverage (times)	1.34	1.84	2.08
NWC/OI (%)	43%	44%	36%

**provisional*

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 in FY2020 August, 2019	Date & Rating in FY2020 July, 2019	Date & Rating in FY2020 June, 2019	Date & Rating in FY2018 -
1	Term Loans*	Long Term	140.0	NA	[ICRA]A-(SO) (Stable)	Provisional [ICRA]A-(SO) (Stable)	Provisional [ICRA]A-(SO) (Stable)	-
2	Non-Convertible Debentures	Long Term	0.0	NA	-	Provisional [ICRA]A-(SO) (Stable); Withdrawn	Provisional [ICRA]A-(SO) (Stable)	-

Yet to be drawn down

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*	-	-	-	140.0	[ICRA]A-(SO) (Stable)

Yet to be drawn down

Source: NVR

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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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.

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For more information, visit www.icra.in

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