March 27, 2020

TVS Industrial & Logistics Parks Private Limited: Outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	960.0	960.0	[ICRA]A-; outstanding, outlook revised to Negative from Stable
Long-term, Fund-based Facilities	20.0	20.0	[ICRA]A-; outstanding, outlook revised to Negative from Stable
Short-term, Fund-based Facilities	20.0	20.0	[ICRA]A2+; outstanding
Total	**1000.0**	**1000.0**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook on the long-term rating of TVS Industrial & Logistics Parks Private Limited (TVSILP) factors in the significantly lower than expected income from engineering procurement and construction (EPC) services for FY2020 and the material downward revision in the guidance for FY2021 and beyond. Furthermore, there are delays in bringing additional equity. However, ICRA notes the downward revision in TVSILP's expansion plans to a leasable area of ~4 million square feet (sft) by March 31, 2021, as against 5.66 million sft earlier. This is from the current leasable area of 2.2 million sft. While this will result in a decline in the expected rental income, ICRA takes comfort from the lower debt requirement as against earlier expectations. ICRA also notes that TVSILP's policy of proceeding with warehouse construction only after the receipt of a letter of intent (LOI) from its anchor customer mitigates the offtake risk to a large extent. The business model, which involves long-tenure agreements with clients, ensures long-term commitment of cash inflows. However, TVSILP's overall occupancy declined to 96.7% as on December 31, 2019 from 100% as on September 30, 2019 due to a customer exit after its lock-in period; the same remains vacant as on date. ICRA will continue to monitor the impact if any of the prolonged outbreak of Covid-19 on the credit profile of TVSILP.

As part of the expansion plan, TVSILP has identified new projects (warehouse / spare parts distribution hubs) at Hosur (Tamil Nadu), Coimbatore (Tamil Nadu) and Red Hills (Tamil Nadu). These projects are at various stages of execution. ICRA notes that the anchor tenant has already been firmed at these locations. Though the company possesses the requisite expertise to build and lease out industrial spaces, these projects, being in various stages of execution, expose the company to some degree of project execution risks.

The ratings favourably factor in TVSILP's strong parentage, with a 50% stake being held by the TVS Group, and the associated financial and operational flexibility. The ratings also factor in TVSILP's extensive experience, its established position in warehouse / logistics parks construction and leasing, the favourable locations of its parks, and its reputed client profile. ICRA also considers, the steady diversification of TVSILP's customer profile from largely TVS Group companies to other customers, leading to lesser concentration risk. Also, the steady business it receives from one of its promoters (TVS Supply Chain Solutions Limited (TVSSCS, rated [ICRA]A (Stable) / [ICRA]A1) and other Group companies provides comfort. Furthermore, most of TVSILP's clients are renowned and established players, thus mitigating credit risks associated with default in contractual obligations or vacancies leading from closure / shrinkage of client business.

The company is required to improve its net-worth and correct its capital structure by bringing in additional equity, which is a key rating sensitivity. Inability of the company to bring in additional equity in the immediate near-term, would be a credit negative. The ratings remain sensitive to any further large debt-funded expansions / acquisitions, adversely impacting the company's credit profile. ICRA will continue to monitor the developments in this regard on a case-to-case basis.

Key rating drivers and their description

Credit strengths

Strong parentage with financial and operational flexibility as part of Group – The TVS Group, with revenues of more than US$ 10 billion, is an automotive conglomerate, comprising companies involved in manufacturing of two-wheelers, three-wheelers and auto components, distribution, automobile dealership, and finance, among others. TV Sundaram Iyengar & Sons (TVS & Sons; rated [ICRA]AA (Stable) / [ICRA]A1+), established in 1911, is the Group's parent company and an automobile distribution company in India. TVSILP is a 50:50 joint venture (JV) between TVSSCS (a 49.9% subsidiary of TVS & Sons; and rated [ICRA]A (Stable) / [ICRA]A1), the Group's logistics arm, and Ravi Kumar Swaminathan & Associates. Being a part of the TVS Group, TVSILP not only enjoys an established and reputed brand name, but also derives significant financial and operational flexibility.

Strong business synergies with Group companies – Since incorporation, TVSILP had been deriving considerable part of its revenues from TVS Group companies, especially from TVSSCS, although the ratio of TVS Group in the overall business of TVSILP, has been reducing steadily. Irrespective of this decline, TVSILP continues to draw synergies while being part of the TVS Group, and specially, owing to TVSSCS, which operates in the related business of third-party logistics. TVSSCS is an automotive transportation and logistics service provider (inbound / outbound logistics and warehousing). It does not own any of the infrastructure, which are hired / leased from service providers. TVSILP is one such vendor for TVSSCS, and for other companies in the TVS Group. Though TVSILP does not have any written agreement with the Group companies for outsourcing of work, considering the Group's management control over the company, it can be safely assumed that bulk of the infrastructure creation related requirement of the Group would be extended to TVSILP. The Group thus ensures that the infrastructure is created and owned within the Group, while still not impacting the core activities of the Group companies.

Business model ensures long-term commitment of cash inflows – TVSILP enters into long-term lease agreements with customers, typically for 5-10 years duration. The company tries to ensure a payback period of seven to eight years for arriving upon the rentals to be charged (when compared to the term loan tenure of 12-15 years for its new projects). Most of the contracts have a lock-in of at least three years, thus ensuring a steady commitment of cash flows from the existing assets. The growth in cash flows would depend upon the escalation clause (typically 5% per annum) and the company's ability to add assets regularly. The regularity of cash flows would be contingent upon its ability to either renew the agreements with existing customers or find new customers at the expiry of each lease. TVSILP's overall occupancy declined to 96.7% as on December 31, 2019 from 100% as on September 30, 2019 due to a customer exit after its lock-in period; the same remains vacant as on date. However, TVSILP has, over the years, demonstrated its ability in maintaining a healthy occupancy of its assets.

Credit challenges

Ongoing debt-funded capital expenditure will lead to further moderation in the capital structure and debt coverage indicators – The warehouse construction projects are capital intensive. TVSILP has estimated a capital outlay of ~Rs. 550 crore to be incurred over FY2020 and FY2021 towards the above-mentioned projects, leading to an increase in the total leasable area to 4 million sft as on March 31, 2021 from 1.5 million sft as on March 31, 2019. However, the same is a downward revision from the earlier indicated 5.66 million sft by March 31, 2021 and capital outlay of ~Rs. 883 crore over FY2020 and FY2021. As the company proposes to fund bulk of this through debt, its leverage ratio, which has already weakened with Total Debt/OPBDITA of 10.5 times as on October 31, 2019 (as per provisional financials), is expected to witness further increase. The company is required to improve its net-worth and correct its capital structure by bringing in additional equity, which is a key rating sensitivity. Inability of the company to bring in additional equity in the immediate near-term would be a credit negative. Also, since the rentals from these projects will start to accrue in stages in FY2021, the return indicators (return on capital employed) during FY2020 and FY2021 are also expected to be constrained.

Company's inability to grow its EPC business in the envisaged exponential manner would impact its cash generating ability in the upcoming years – The company witnessed an income of Rs. 0.34 crore from EPC services in 7M FY2020, as against an income of Rs. 6.1 crore in FY2019. This is significantly lower than the exponential growth expected and there is a material downward revision in the guidance for FY2021 and beyond. While the debt requirement is also lower due to the downward revision in the expansion plans, inability to generate the exponential EPC income is a credit negative.

Project execution risks with an aggressive expansion plan to set up additional about 1.8 million sft of space over the medium term – With a current leased-out warehouse space of nearly 2.2 million sft across seven locations, TVSILP's scale of current operations is moderate. The company has currently embarked on an expansion plan to achieve leasable warehouse / logistics park space of ~4 million sft by FY2021. As part of the expansion plan, TVSILP has identified new projects (warehouse / spare parts distribution hubs) at Hosur (Tamil Nadu), Coimbatore (Tamil Nadu) and Redhills (Tamil Nadu). All of these projects are at various stages of execution. Besides these projects, the company has identified land in Neelmangala and Jaipur in order to expand beyond 4 million sft. Since all these projects are at different phases of execution thus, its exposes TVSILP to some degree of project execution risks.

Liquidity position: Adequate

TVSILP had total debt of Rs. 384.9 crore outstanding as on October 31, 2019, which includes term loans of Rs. 350.6 crore. As TVSILP has been funding the capital expenditure largely through debt, it has resulted in an increase in interest expenses and will require higher margin for bank loans, thus stretching the cash flows and liquidity, going forward. Though the loans currently tied up by TVSILP are for longer duration (12-15 years), the liquidity profile will weaken once the debt repayment starts ballooning, i.e. FY2022 onwards. However, with the proposed equity infusion in FY2021, the liquidity position is expected to improve.

Rating sensitivities

Positive triggers – ICRA could revise the outlook to Stable if there is a significant improvement in leverage metrics of TVSILP at the consolidated level resulting in an improvement in its debt coverage indicators.

Negative triggers – Negative pressure on the rating could arise if DSCR of TVSILP at the consolidated level falls below 1.5 times on a sustained basis. Non-receipt of equity infusion in the immediate near-term would also be negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent / Group Support	Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TVSILP. As on March 31, 2019, the company had four special purpose vehicles, that are enlisted in Annexure-2.

About the company

TVS Industrial & Logistics Parks Private Limited (erstwhile TVS Infrastructure Private Limited), a part of the TVS Group, was set up in 2005 to support the Group's supply chain management by providing core industrial infrastructure for manufacturing, distribution and sales. TVSILP is a 50:50 JV between TVSSCS (rated [ICRA]A (Stable) / [ICRA]A1), the logistics arm of the Group, and Ravi Kumar Swaminathan & Associates. TVSILP creates industrial infrastructure facilities such as industrial and warehouse buildings, and logistics infrastructure parks. From a public limited company, it was converted into a private limited company in December 2015, and the name was changed to TVSILP during FY2018.

As per the provisional financials for 7M FY2020 (consolidated), TVSILP reported a profit after tax (PAT) of Rs. 1.0 crore on an operating income (OI) of Rs. 26.0 crore.

Key financial indicators (audited, consolidated)

	FY2018	FY2019
Operating Income (Rs. crore)	21.0	42.2
PAT (Rs. crore)	3.3	3.7
OPBDIT/OI (%)	59.4%	72.6%
RoCE (%)	9.2%	12.0%
Total Outside Liabilities/Tangible Net Worth (times)	3.1	5.3
Total Debt/OPBDIT (times)	10.7	9.2
Interest Coverage (times)	2.8	1.9
DSCR	2.3	1.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Current Rating	Earlier Rating	FY2019	FY2018	FY2017
					27-Mar-20	29-Jul-19	3-Apr-18	23-Mar-18	15-Dec-16
1	Term Loans	Long-term	960.0	350.6	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Stable)
2	Fund-based Limits	Long-term	20.0	-	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Stable)
3	Fund-based Limits	Short-term	20.0	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1	-

*Amount in Rs. crore; *As on October 31, 2019*

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 Loan	Mar-16	NA	Dec-24	16.0	[ICRA]A- (Negative)
NA	Term Loan	Aug-17	NA	Sep-29	240.0	[ICRA]A- (Negative)
NA	Term Loan	Jan-19	NA	Jan-34	250.0	[ICRA]A- (Negative)
NA	Term Loan	Jun-17	NA	Jun-32	100.0	[ICRA]A- (Negative)
NA	Term Loan	Jun-18	NA	Jun-33	50.0	[ICRA]A- (Negative)
NA	Proposed Term Loan	NA	NA	NA	304.0	[ICRA]A- (Negative)
NA	Cash Credit Facility	NA	NA	NA	20.0	[ICRA]A- (Negative)
NA	Short-term Loans	NA	NA	NA	20.0	[ICRA]A2+

Source: TVS Industrial & Logistics Parks Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership*	Consolidation Approach
Jagannath Logistics & Industrial Parks LLP	100.0%	Full Consolidation
Maragathammbal Industrial and Logistics Park LLP	100.0%	Full Consolidation
Marudhamalai Industrial & Logistics Parks LLP	100.0%	Full Consolidation
Siruvapuri Murugan Industrial and Logistics LLP	73.0%	Full Consolidation

**As on March 31, 2019*

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Abhilash Mishra
+91 22 6114 3421
abhilash.mishra@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999