February 18, 2022

TCG Urban Infrastructure Holdings Private Limited: Rating upgraded to [ICRA]BBB (Stable) from [ICRA]BBB- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	315.00	315.00	Upgraded to [ICRA]BBB (Stable) from [ICRA]BBB- (Stable)
Total	**315.00**	**315.00**	

Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in the improvement in the revenue profile of TCG Urban Infrastructure Holdings Private Limited (TCGUIH) over the past year as rental income from new leases stabilised. With the average occupancy of TCG Financial Centre, Mumbai, estimated at 87% in FY2022 compared with 78% in FY2021, the rent income is expected to grow by 10% YoY in FY2022. At the current level of leasing and rental rates, the debt coverage metrics on the rated instrument, which is backed by the lease rentals of TCG Financial Centre (TCG FC), are estimated to be adequate over the near to medium term.

The rating continues to factor in TCGUIH's status as the holding company for the real estate activities of The Chatterjee Group (TCG, or the Group), with an established track record of developing and leasing commercial real estate assets. TCGUIH enjoys significant financial flexibility by being a part of a large and diversified business group. TCGUIH holds two properties on its balance sheet – TCG FC, Mumbai (spread over 0.15 million sq. ft. (msf) of leasable area) and First India Place, Gurgaon (FIP, spread over 0.03 msf of leasable area) – with both having favourable locations and a reputed tenant profile, including consulates and banks. The committed occupancy in TCG FC remained healthy at 85% as on December 31, 2021, notwithstanding a decline from 94% as of December 2020. For FIP, the committed occupancy has remained unchanged at 66% over FY2022. ICRA notes the strong tenant profile in both the properties; there has been a limited impact of the pandemic on the rental collection, particularly in TCG FC.

The rating factors in the track record of the management in maintaining healthy liquidity and the moderation in funding support to the Group's ongoing projects in the near term. The entity-level debt coverage metrics remain adequate. Moreover, a debt service reserve account (DSRA) equivalent to two quarters of interest and principal repayment, along with an escrow structure on the LRD loan availed against TCG FC, provides additional comfort.

The rating also factors in the management's plans to merge a subsidiary company – Boulevard Services Pvt Ltd (BSPL) – with TCGUIH by Q1 FY2023. BSPL does not hold any immovable property and only earns service/hire rent for installation and leasing of fit-outs at two group assets – Bengal Intelligent Park, Kolkata (Asset SPV –Bengal Intelligent Parks Pvt Ltd (BIPPL)) and First Technology Park, Bengaluru (Asset SPV – BIP Developers Pvt Ltd (BIPDPL)). BSPL has availed debt against the service/hire rent income. Notwithstanding this merger, the consolidated credit profile is expected to remain comfortable with projected debt/NOI at 4.9 times in FY2023.

However, the rating remains constrained by high tenant concentration, which results in risks of cash flow mismatches if any of the key tenants vacates space. TCGUIH's ability to maintain rental rates and occupancy will remain important to keep the debt coverage metrics in line with the expected levels.

TCGUIH has extended corporate guarantees for the debt raised by subsidiary companies for an aggregate sanctioned loan amount of around Rs. 700 crore, out of which the total outstanding as on January 31, 2022 was around Rs. 458 crore. ICRA notes that these subsidiaries have adequate credit profile with sufficient liquidity/cash flow for their respective debt servicing. Further, ICRA notes that debt servicing on the rated instrument continues to be protected by an escrow structure. The same prioritises the utilisation of lease rental proceeds for debt servicing before the release of any surplus cash flows towards other funding requirements of the company.

Key rating drivers and their description

Credit strengths

Established track record of TCG in commercial real estate; TCGUIH, being holding company for the Group's real-estate business, enjoys financial flexibility – TCG was founded by Dr. Purnendu Chatterjee in 1989. It has diversified interests, mainly in petrochemicals (Haldia Petrochemicals Limited, rated [ICRA]AA- (Stable)/A1+ (Sept 2021)), life sciences and healthcare (TCG Lifesciences Pvt Ltd, rated [ICRA]A (Stable)/A1 (Jun-21)), real estate, outsourcing and technology services. It is present in the US, Europe and South Asia. TCGUIH serves as the holding company for the real estate activities of the TCG Group and has a vast track record of developing assets and putting them on lease, having completed eight projects spanning 4.2 msf, spread over six cities. The occupancy levels across most leased properties are healthy. TCGUIH has significant financial flexibility by being a part of a large and diversified business group.

Two leased properties in TCGUIH at attractive locations and with reputed tenant profile – TCG FC, which has a total leasable area of 0.15 msf, is located along the main road in Bandra Kurla Complex (BKC), a commercial business district in Mumbai. FIP, which has a leasable area of 0.03 msf, is located on M.G. Road in Gurgaon, an established commercial office area. The attractive location of both the properties helped TCGUIH get reputed tenants, mainly comprising consulates and banks. This, in turn, has resulted in low counterparty risks. The committed occupancy of TCG FC remained healthy at 85% as on December 31, 2021. ICRA further notes that most of the leases are valid till FY2024, which reduces vacancy risks, notwithstanding any impact of the pandemic. For FIP, however, the actual occupancy is low at around 66%.

Adequate debt coverage metrics backed by steady occupancy and rental rates despite the pandemic – With the average occupancy of TCG FC estimated at 87% in FY2022 compared with 78% in FY2021, the rental collections are expected to grow by 10% YoY in FY2022. This is supported by a largely steady rental rate of ~Rs. 310 per sq. ft. per month. While there has been some revision in a few lease terms, the business profile of TCGUIH has remained unaffected by the pandemic. At the current level of leasing, the DSCR on the rated instrument, which is backed by the lease rentals of TCG FC, is estimated to be adequate at around 1.14 times in FY2022. Further, a DSRA equivalent to two quarters' interest and principal repayment and an escrow structure, whereby the rentals are directly deposited in an escrow account with the lender and utilised first for debt servicing before the release of any surplus cash flows for other funding requirements of the company, provides additional comfort.

Credit challenges

High tenant concentration risk – The leasable area in TCG FC has an actual occupancy of 85% at present, spread over 12 tenants. However, the top three tenants contribute to around 42% of the total lease rentals. For FIP, the occupancy stands at 66% of the area at present, with the top three tenants contributing 86% to the total lease rentals. Thus, the tenant concentration risk remains significant for both the properties. This enhances the risks of cash-flow mismatches in case any of the key tenants vacates space.

High investments and corporate guarantees provided to subsidiaries – TCGUIH, being the holding company for the Group's real estate business, has made sizeable investments in various projects developed under subsidiaries. With the investments not yielding any significant dividend in recent years, the overall return on the capital employed has remained depressed. However, ICRA notes that most investments continue to be held by the company, and any monetisation of the same through sale of assets is likely to support the cash flows of the holding company.

The debt profile as on March 31, 2021 comprised around Rs. 318 crore of external debt and around Rs. 163 crore of short-term borrowings from related parties. While the capital commitments on the assets being developed by subsidiary companies are expected to be modest over the medium term, TCGUIH has extended corporate guarantees for the debt raised by subsidiary companies for an aggregate sanctioned loan amount of around Rs. 700 crore, out of which the total outstanding as on January 31, 2022 was around Rs. 458 crore. ICRA notes that these subsidiaries have adequate credit profile with sufficient liquidity/cash flow for their respective debt servicing.

Further, ICRA notes the proposed merger of a subsidiary company – Boulevard Services Pvt Ltd (BSPL) – with TCGUIH in Q1 FY2023. BSPL does not hold any immovable property and only earns service/hire rent for installation and leasing of fit-outs at two group assets - Bengal Intelligent Park Limited (Kolkata, Asset SPV - BIPPL) and First Technology Park (Bengaluru, Asset SPV –BIPDPL). BSPL has availed debt against the service/hire rent income. Notwithstanding this merger, the consolidated credit profile is expected to remain comfortable with projected debt/NOI at 4.9 times in FY2023.

Liquidity position: Adequate

At the current occupancy levels and rent rates, the monthly rental income of TCG FC provides adequate cover over the debt repayment obligations for the LRD loan. Going forward, the liquidity profile will be determined by the company's ability to sustain occupancy levels and renew lease rentals at adequate rates in a timely manner to keep debt coverage metrics comfortable through the balance tenure of the term loan. A DSRA equivalent to two quarters of interest and principal payment and an escrow structure, however, provide comfort. Going forward, the impact of the upcoming merger with BSPL will remain a key monitorable.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if TCGUIH achieves a sustained growth in earnings on the back of better occupancy and higher-than-expected rentals, which would support an improvement in the company's coverage metrics and liquidity position. The specific credit metric for an upgrade would be a 5-year average DSCR of more than 1.25 times.

Negative factors – Negative pressure on TCGUIH's rating could arise if the occupancy of TCG Financial Centre, Mumbai, falls below 80%, on a sustained basis, or if the rental rates decline, leading to significant drop in rental generation, impacting the debt coverage metrics. Any increase in debt levels (TCGUIH standalone) or deterioration in the liquidity profile due to higher-than-expected support to subsidiary companies could also result in a rating downgrade.

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 consolidated of the financials of TCGUIH (Standalone) and BSPL given the expected merger of BSPL into TCGUIH (Standalone) within Q1 FY2023.

* Details are provided in Annexure 2

About the company

TCGUIH, a part of The Chatterjee Group (TCG), is a commercial real estate development company focused on the construction of IT parks, laboratory spaces and city-centric office spaces in India. Over the past two decades, it has, through various special purpose vehicles (SPVs), developed eight projects spanning 4.2 million square feet (msf), spread over six cities. Among these projects, TCG Financial Centre (TCG FC) in the Bandra Kurla Complex, Mumbai, and First India Place (FIP) in Gurgaon are held directly under TCGUIH.

The company also provides consultancy services through its wholly-owned subsidiary, TCG Developments India Private Ltd., and asset upkeep and maintenance services to all tenants in owned assets through another wholly-owned subsidiary, TCG Facilities Management Services Private Ltd.

In FY2021, the company reported a net loss of Rs. 2.0 crore on an operating income (OI) of Rs. 61.8 crore compared to a net loss of Rs. 26.5 crore on an OI of Rs. 46.2 crore in FY2020.

Key financial indicators:

TCGUIH (Standalone)	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	42.5	46.2	61.8
PAT (Rs. crore)	-48.2	-26.5	-2.0
OPBDIT/OI (%)	52.7%	70.7%	83.1%
PAT/OI (%)	-113.4%	-57.3%	-3.24%
Total Outside Liabilities/Tangible Net Worth (times)	6.0	8.0	7.6
Total Debt/OPBDIT (times)	22.8	15.9	9.4
Interest Coverage (times)	0.4	0.8	1.4

Source: Company; PAT: Profit After Tax, OPBDIT: Operating Profit Before Depreciation, Interest and Tax, OI: Operating Income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on December 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
				Feb 18, 2022	Dec 28, 2020	Feb 17, 2020	Jan 03, 2019
Term Loans	Long-term	315.00	282.90	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (SO) (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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 Loans	Dec-18	-	FY 2031	315.00	[ICRA]BBB (Stable)

Source: *Company data*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
TCGUIH (Standalone)	100% (rated entity)	Full Consolidation
BSPL	100%	Full Consolidation

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Shreekiran Rao
+91 22 6114 3469
shreekiran.rao@icraindia.com

Mathew K Eranat
+91 80 4332 6415
mathew.eranat@icraindia.com

Mihir Gada
+91 22 6114 3400
mihir.gada@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.

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches