

January 27, 2023

## Indospace Chittoor II Private Limited: Rating assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	36.00	[ICRA]A- (Stable); assigned
<b>Total</b>	<b>36.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned rating of Indospace Chittoor II Private Limited (ICPL) favorably factors in the strong business profile of the IndoSpace Group in the industrial, warehousing and logistics park business in India with an established track record. The asset, Indospace Sri City II, is favorably located inside the Domestic Tariff Zone (DTZ) of Sri City, which is an integrated business city in Andhra Pradesh. The rating factors in the healthy cashflow visibility led by project completion and achievement of full leasing for the asset (leasable area of 2.6 lakh sq ft). The rentals for 1.7 lakh sq ft commenced from June 2022 and for remaining from January 2023. The leverage is comfortable with total external debt to annualized rental of around 5.5 times and 5-year average DSCR of around 1.20 times for FY2024-FY2028. Further, the bank facility requires maintaining an escrow mechanism and a DSRA (equivalent to three months of debt servicing obligations) for the LRD loan. These provide comfort against any short-term liquidity mismatch in case of any exigency.

The rating, however, is constrained the high tenant concentration risk with entire area leased with only two tenants, of which 64% area is occupied by a single tenant. Any significant weakening in the credit profile or business operations of the tenants, resulting in reduction in occupancy or delays in rent receipts, may impact ICPL's cash flows. The weighted average lease expiry for the asset is 3 years, which exposes the company to vacancy risk. ICPL is also exposed to high geographical and asset concentration risks inherent in single project companies. These risks, however, are mitigated to some extent by the sponsor's vast experience in the warehousing space, large portfolio of IndoSpace across geographies and its established relationship with potential tenants.

The Stable outlook on the rating reflects ICRA's opinion that ICPL will generate steady rental revenues from the leased blocks. Also, ICRA believes that the company will benefit from the extensive experience of the Group in the warehousing space to mitigate any vacancy risks.

### Key rating drivers and their description

#### Credit strengths

**Cash flow visibility with 100% leasing of the asset supported by favourable project location** – ICPL is developing 2.6 lakh sq. ft. of leasable area inside DTZ of Sri City, which is an integrated business city in the Chittoor district of Andhra Pradesh. The location is favourable in terms of ready access to infrastructure such as roads, power and telecom. The project is located off the National Highway 16 that connects Chennai (~67 km) to Kolkata and has easy access to air, sea and railway hubs.

ICPL has completed and handed over the area of IndoSpace Sri City II to the tenants. The rentals for 1.7 lakh sq ft commenced from June 2022 and for remaining from January 2023. Thus, leasing of 100% of the area supports the future cashflow visibility.

**Strong track record and business profile of sponsor** – The IndoSpace Group is one of India's leading developers of industrial and warehousing parks. ICPL is promoted by ILP II Ventures II Pte. Ltd., Singapore (part of the IndoSpace Group), which is

sponsored by Realterm Global, Everstone Capital and GLP Global. Realterm Global has more than 20 years of experience in developing industrial and logistics parks across the world. At present, the Group has 41 Grade A parks-9 in North zone (1 in Rajpura and 8 in Delhi/NCR), 11 in West zone (2 each in Ahmedabad and Mumbai and 7 in Pune) and 21 in South zone (1 in Ananthpur, 2 in Sri City, 14 in Chennai, 1 in Coimbatore and 3 in Bengaluru).

**Low project leverage and presence of DSRA post moratorium period** – The project is being funded by debt-to-equity ratio of 1:1 and at full occupancy, the leverage is expected to be comfortable with total external debt to annualized rental of around 5.5 times. Further, the bank facility requires maintaining an escrow mechanism and a DSRA (equivalent to three months of debt servicing obligations) for the LRD loan. These provide comfort against any short-term liquidity mismatch in case of any exigency.

### Credit challenges

**Exposure to tenant concentration risk** – The total leasable area of 2.6 lakh sq ft is leased to two tenants of which one tenant occupies 64% of the area. This exposes the company to tenant concentration risk.

**Exposure to vacancy risk** – The weighted average lease expiry for the asset is around 3 years. The risk is partly mitigated by Indospace’s established presence in the warehousing market with strong relationships.

**Geographical and asset concentration risks** – IndoSpace Sri City II is the single project undertaken by ICPL, thus it is exposed to high geographical and asset concentration risks inherent in the single project companies. However, ICRA draws comfort from the Group’s diverse portfolio of logistics and industrial parks (including developed and under-development parks) across India.

### Liquidity position: Adequate

As on January 05, 2023, the company had cash and bank balance of Rs. 7.95 crore, and DSRA balance of Rs. 0.75 crore. The debt repayment obligations of Rs. 0.4 crore in Q4 FY2023 and Rs. 2.0 crore in FY2024 will be comfortably met from cashflow from operations.

### Rating Sensitivities

**Positive factors** – ICRA could upgrade the rating in case of improvement in rental rates leading to 5-year DSCR greater than 1.35 times on a sustained basis.

**Negative factors** – Pressure on the rating could arise if there are sustained vacancy and/or any additional indebtedness, resulting in weakening of leverage and debt coverage ratios.

### Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Debt Backed by Lease Rentals</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the company

### About the Company

IndoSpace Chittoor II Private Limited (Sricity-II) is developing an industrial and logistics park, IndoSpace Sri City, on a land admeasuring approximately 11 acres, with a total leasable area of around 2.6 lakh sq. ft. comprising four blocks inside DTZ of

Sri City, which is an integrated business city in Chittoor district of Andhra Pradesh. The asset is fully leased and rentals fully commenced; the rentals for 1.7 lakh sq ft commenced from June 2022 and for remaining from January 2023. ICPL owns the lease hold rights on a long-term lease of 99 years from Sri City Private Limited for development of the project. At present, the company is a 100% subsidiary of ILP II Ventures II Pte. Ltd., Singapore.

#### Key financial indicators (audited)

ICPL	FY2021	FY2022
Operating income (Rs. crore)	0.0	0.0
PAT (Rs. crore)	-0.2	-2.0
OPBDIT/OI	nm	nm
PAT/OI	nm	nm
Total outside liabilities/Tangible net worth (times)	2.0	2.8
Total debt/OPBDIT (times)	-89.3	-36.0
Interest coverage (times)	-273.3	-3.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore  
nm= not meaningful as the rentals have commenced in FY2023; all ratios as per ICRA's calculations

#### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

#### Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of Rating History for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Nov 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				Jan 27, 2023	-	-	-	
1	Term loans	Long-term	36.00	36.00	[ICRA]A- (Stable)	-	-	-

#### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – 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 are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	November 2022	NA	April 2033	36.00	[ICRA]A- (Stable)

*Source: Company*

[\*Please click here to view details of lender-wise facilities rated by ICRA\*](#)

**Annexure II: List of entities considered for consolidated analysis- Not Applicable**

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