June 24, 2022

One International Centre Private Limited: Long-term rating downgraded to [ICRA]BBB+ (Negative)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Term Loans	2,250.0	2,250.0	[ICRA]BBB+ (Negative); downgraded from [ICRA]A- (Negative)
Non-fund Based (Bank Guarantee)	14.0	14.0	[ICRA]BBB+ (Negative), downgraded from [ICRA]A- (Negative)
Unallocated Limits	181.0	181.0	[ICRA]BBB+ (Negative), downgraded from [ICRA]A- (Negative)
Non-Convertible Debentures	725.0	-	Downgraded to [ICRA]BBB+ (Negative) from [ICRA]A- (Negative) and withdrawn
Non-Convertible Debentures	473.0	473.0	[ICRA]BBB+ (Negative), downgraded from [ICRA]A- (Negative)
Total	**3,643.0**	**2,918.0**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in rating reflects the substantial decline in occupancy in One International Center Private Limited's (OICPL) sole commercial property, One International Center (OIC, Lower Parel, Mumbai; leasable area of 2.6 mn sq. ft.), of which 0.9 mn sq ft was completed in FY 2022 and the resulting weakening of its financial risk profile. Comfort, however, is drawn from OICPL's strong sponsor profile which holds 100% of the company through its affiliates, i.e. entities owned or managed by The Blackstone Group Inc. (the Sponsor) and the resulting financial flexibility. The Sponsor has a strong track record of developing and operating commercial real estate assets in India, and commands high financial flexibility. The Sponsor has demonstrated its support through infusion of funds in FY2022, which helped OICPL to create a liquidity buffer to meet the cash flow mismatches due to the decline in occupancy. The liquidity profile as on March 31, 2022, was adequate as reflected by cash and liquid investments of Rs. 154 crore and the debt service reserve account (DSRA) of Rs. 65 crore. The sponsor has committed to infuse Rs. 180-190 crore in aggregate in two of its portfolio companies, including OICPL, in the near term. ICRA expects the sponsor to continue to support OICPL in the event of any cash flow requirement.

The rating factors in the attractive location of the commercial property, OIC, in Lower Parel, which is a well-developed commercial location and well-connected through rail and road network. While this is likely to help OICPL in improving the occupancy over the medium term, as the demand for office space picks up with most corporates resuming work from office, the timelines for the same remains a key monitorable. ICRA further notes that the fourth tower - T4 - in the same premises with a total leasable area of 0.9 mn sq. ft. is currently ready and the company has commenced marketing activities for the same. It has adequate funds earmarked for meeting the pending costs of ~Rs. 40 crore. With no pre-leasing tie-ups as on date, OICPL remains exposed to significant market risks. Further, the extent of leveraging against rental income from T4, once it becomes operational, and its impact on the coverage indicators will remain a key monitorable going forward.

The company remains exposed to vacancy risk, given the low average balance lease term for most of the existing leases. The weighted average lease expiry stood at 3.3 years as on date compared to the balance debt tenure of 12.8 years. The rating is also constrained by the high tenant concentration risk with the top five tenants contributing to ~50% of total rental income at present (though it has reduced from ~67% in FY 2021).

The Negative outlook reflects the risks of sustained weakness in the financial profile in case of an inability to improve occupancy in existing towers or if there is significant delay in leasing of the recently completed T4.

Key rating drivers and their description

Credit strengths

Strong promotor group with established track record lends financial flexibility – The company is 100% owned by the Blackstone Group, which is India's leading office landlord with a large portfolio of office properties across Bangalore, Pune, Hyderabad, Mumbai, NCR and Chennai. The sponsor has established leasing relationships with several blue-chip multinational companies as well as Indian corporates. Its long track record in real estate sector and large, diverse portfolio in retail and commercial real estate business in India provides comfort and allows it to command high financial flexibility. ICRA expects the sponsor to support OICPL in the event of any cash flow requirement.

Favourable location of the property – OIC is located in Lower Parel, Mumbai, adjacent to the 100 ft wide arterial road, Senapati Bapat Marg (Tulsi Pipeline Road). It is centrally located between Nariman Point and the BKC area. It is well-connected through road and rail network. The project is 0.5 kilometres (km) from Elphinstone Road railway station (Western Railways line) and about 0.5 km from Parel station (Central Railways line). The Western Express Highway is about 4 km from the project site. The project has proximity to many well-known hotels and premium residential developments. This is likely to help OICPL in improving the occupancy over the medium term, as the demand for office space picks up with most corporates resuming work from office. However, the same needs to be demonstrated by the company.

Liquidity support through DSRA and fund infusion from sponsor – The company is required to maintain DSRA reserve equivalent to three months' LRD instalments. The sponsor has committed to infuse Rs. 180-190 crore in aggregate in two of its portfolio companies, including OICPL, in the near term.

Credit challenges

Substantial decline in occupancy levels; slower-than-expected releasing of vacancies and market risks accentuated by addition of new tower for leasing – OIC's occupancy declined in FY2022 to 51% (committed occupancy for Tower 1, 2 and 3) as on April 30, 2022, from 71% as on March 31, 2021. This was due to a couple of large tenants vacating the space as a part of their business restructuring process and a few smaller tenants vacating owing to the Covid-19 pandemic. ICRA notes that the company has renewed most of the leases, which were till FY2023. However, the low average balance lease term for the existing leases exposes it to vacancy risks. OICPL also remains exposed to market risks for T4, for which there is a leasing pipeline.

Deterioration in leverage and coverage indicators despite comfort from available liquid balances and committed sponsor support – The company's debt coverage and leverage metrics deteriorated due to a substantial decline in occupancy. Comfort, however, is drawn from OICPL's strong sponsor profile and the resulting financial flexibility demonstrated by its support through infusion of funds in FY2022 as reflected in cash and liquid investments of Rs. 154 crore and DSRA of Rs. 65 crore as on March 31, 2022. The sponsor has committed to infuse Rs. 180-190 crore in aggregate in two of its portfolio companies, including OICPL, in the near term.

Exposed to tenant concentration risk – The tenant concentration risk is high for OIC with top five tenants contributing to ~50% of the total rental income at present.

Liquidity position: Adequate

OICPL's debt coverage metrics are weak owing to low occupancies. Its debt servicing outflows are supported by the available cash and bank balances. In addition, the company is expected to have a capex outflow of ~Rs. 40 crore in FY2023 towards the pending cost of T4. The liquidity profile is supported by the unencumbered cash and liquid investments of Rs. 153.89 crore and DSRA balance of Rs. 65.43 crore as on March 31, 2022. Further, the sponsor has committed to infuse funds in the near-term to support the cash flow mismatches. The resulting liquidity (excluding the earmarked funds for capex) is likely to cover debt repayment obligations for more than a year.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Stable if the company is able to increase the occupancy of existing towers (T1, T2 and T3) of OIC is expected to be over 75% on a sustained basis while realising the scheduled escalations in a timely manner which will lead to improvement in coverage ratios. Ramp up in leasing tie-ups for the new tower (T4) at adequate rental rates without a significant increase in leverage would also be a credit positive.

Negative factors – Downward pressure on the rating could emerge if the debt coverage indicators remain weak, on a sustained basis, due to the inability to improve occupancy or in case of cash flow mismatches owing to delay in rent receipt from the lessees. Lack of timely support from the sponsor may 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 Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

OICPL, earlier an Indiabulls Group company, was incorporated in May 2005. In 2006, OICPL acquired 8 acres of the Elphinstone Mills Land in Mumbai through an auction conducted by the National Textile Corporation. OICPL holds freehold title to the land and received approval from the Maharashtra Government to establish an IT Park at the project site. In Q4 FY2018, Indiabulls had divested 50% stake in OICPL to Blackstone and then the balance 50% in September 2019.

OICPL owns and manages One International Center, at the Elphinstone Mills land in Lower Parel, Mumbai with a total leasable area of 1.7 mn sq. ft. comprising T1, T2 and T3. The company has also completed T4 with a total leasable area of 0.9 mn sq. ft and is in the process of tying up leases for the same.

Key financial indicators (audited)

OICPL Standalone	FY2020	FY2021	FY2022
Operating Income (Rs. crore)	332.1	282.7	186.8
PAT (Rs. crore) (excluding exceptional item)	124.9	37.9	-32.1
PAT (Rs. crore)	124.9	37.9	-329.0
OPBDIT/OI (%)	82.5%	77.9%	58.6%
PAT/OI (%)	37.6%	13.4%	-176.1%
Total Outside Liabilities/Tangible Net Worth (times)	3.4	8.9	8.0
Total Debt/OPBDIT (times)	10.8	13.2	23.5
Interest Coverage (times)	1.9	1.0	0.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History					
		Type	Amount Rated	Amount Outstanding as of March 31, 2022	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020			
			(Rs. crore)	(Rs. crore)	24-Jun-22	24-Jun-21	7-May-20	17-Feb-20	13-Jan-20	20-Dec-19
1	Term Loans	Long Term	2250	2103	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Non-fund Based (Bank Guarantee)	Long Term	14	-	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Unallocated Limits	Long Term	181	-	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	-	-	-
4	Non-Convertible Debentures	Long Term	725	-	[ICRA]BBB+ (Negative); Withdrawn	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	Provisional [ICRA]A- (Stable)	-
5	Non-Convertible Debentures	Long Term	473	471	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Non-fund Based (Bank Guarantee)	Very Simple
Unallocated Limits	Not Applicable
Non-Convertible Debentures	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: 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 Loan	Dec -19	7.33%	FY2035	2250.0	[ICRA]BBB+ (Negative)
NA	Non-Fund Based Limit	NA	NA	NA	14.0	[ICRA]BBB+ (Negative)
INE065I07023	NCD	Aug-21	7.83%	Aug-26	473.0	[ICRA]BBB+ (Negative)
INE065I07015	NCD	Jan-20	11%	NA	725.0	[ICRA]BBB+ (Negative); Withdrawn
NA	Unallocated Limits	NA	NA	NA	181.0	[ICRA]BBB+ (Negative)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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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.

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

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