

April 26, 2024

Gateway Office Parks Private Limited: Rating downgraded to [ICRA]BBB- from [ICRA]BBB with change in outlook to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	1074.0	1074.0	Downgrade to [ICRA]BBB- from [ICRA]BBB with change in outlook to Stable from Negative
Long-term – Non-fund based – Bank Guarantee	61.0	61.0	Downgrade to [ICRA]BBB- from [ICRA]BBB with change in outlook to Stable from Negative
Total	1135.0	1135.0	

*Instrument details are provided in Annexure-I

Rationale

The rating downgrade for the bank facilities of Gateway Office Parks Private Limited (GOPPL) factors in the expected moderation in the debt coverage metrics due to decline in occupancy at Gateway Office Parks located at Perungalathur, Chennai. While the company has tied up new leases of around ~78,000 sqft of area in FY 2024, the leases terminated was at around 5 lac sqft of area by a major tenant due to space rationalisation, resulting in an overall decline in occupancy to 37% as of February 2024 from 50% as of February 2023, exerting pressure on operational cash flows. Consequently, the debt coverage metrics are expected to be modest in the medium term and leverage is estimated to remain high as on March 2025. However, the company has adequate liquidity with unencumbered cash and bank balances of ~Rs. 28 crore as on April 16, 2024 to support any cashflow mismatches in the next 12 to 18 months. The market risk remains high as one major tenant has vacated part of the space. ICRA notes that the company has healthy leasing pipeline and is in advance stage of discussions with some of the major tenants. The ability of the company to tie-up leases at adequate rentals, in a timely manner, remains a key monitorable. In addition, the debt coverage ratios remain exposed to adverse movements in interest rates and occupancy levels. The rating continues to be constrained by the company's revenue concentration risk, with dependence on a single asset in Chennai, thereby exposing the entity to fluctuations in a single asset/market's performance. The tenant concentration is high with top three tenants contributing to around 74% of the leased area as of February 2024.

The rating continues to factor in the healthy operational track record of the asset, its presence in an IT-SEZ area in the business district in Perungalathur, Chennai. Even though, the tenant concentration risk remains high, the tenant profile of the company is strong and comprises reputed multinational companies, which moderates the counterparty risks to some extent. The rating also considers strong promoter profile, being sponsored by the Xander Group, which has a track record of almost 19 years in India. The Group has presence across commercial, retail and industrial segments of the real estate sector.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company's leasing will be supported by the healthy leasing pipeline and will be able to maintain adequate liquidity.

Key rating drivers and their description

Credit strengths

Operational track record of asset: The operational property is spread over 3.5 million square feet (msf) of leasable area. It is located in the IT-SEZ in Perungalathur, Chennai, in Peripheral Business District (PBD). Given the quality of development and the favourable location, GOPPL has leased space to reputed IT companies, which mitigates the counterparty risks to some extent.

Sponsored by the Xander Group which has presence across commercial, retail, and industrial segments of the real estate sector: GOPPL is sponsored by The Xander Group, which has a track record of almost 19 years in India. The Group has presence

across commercial, retail and industrial segments of the real estate sector, supported by a strong team with capabilities across various real estate investments.

Credit challenges

Moderation in operational cash flows and debt protection metrics: Increase in vacancy levels over the past two years has resulted in moderation of debt coverage metrics. The occupancy has declined to 37% as of February 2024 from 50% as of February 2023, exerting pressure on operational cash flows. Consequently, the debt coverage metrics are expected to be modest in the medium term and leverage is estimated to remain high as on March 2025. However, the company has adequate liquidity with unencumbered cash and bank balances of ~Rs. 28 crore as on April 16, 2024 to support any cashflow mismatches in the next 12 to 18 months. In addition, the debt coverage ratios remain exposed to adverse movements in interest rates and occupancy levels.

High market risk: The company is exposed to high market risk, given the high vacancy levels in the asset. While the company has tied up new leases of around ~78,000 sqft of area in FY 2024, the leases terminated was at around 5 lac sqft of area by a major tenant due to space rationalisation, resulting in an overall decline in occupancy to 37% as of February 2024 from 50% as of February 2023, exerting pressure on operational cash flows. One of the major tenant has vacated part of the space. ICRA notes that the company has healthy leasing pipeline and is in advance stage of discussions with some of the major tenants. The ability of the company to tie-up leases at adequate rentals, in a timely manner, remains a key monitorable.

Revenue concentration risk: GOPPL owns a single asset in Chennai and hence remains susceptible to any adverse changes in the operational profile of the asset, and to the demand-supply scenario of the particular micro market. Moreover, tenant concentration in the operational area is high with around 74% of the leased area as of February 2024 being occupied by the top three lessees. However, ICRA notes that the tenant profile is strong and comprises reputed multinational companies, which moderates the counterparty risks to a considerable extent.

Liquidity position: Adequate

The company's liquidity position is adequate. The company has free cash and bank balances of ~ Rs. 28 crore (excluding Rs. 25 crore amount in DSRA account) as of April 16, 2024. GOPPL has Rs. 6.2 crore of principal repayments in FY2024 and while the debt coverage metrics are expected to remain weak in the near term, GOPPL has adequate liquidity to support the debt repayments.

Rating sensitivities

Positive factors – The ratings of the company can be upgraded if the company is able to achieve significant improvement in its coverage metrics and liquidity position through ramp-up in occupancy along with adequate rental rates.

Negative factors – Negative pressure on the rating could arise in case of the company's inability to ramp-up occupancy leading to weakening of coverage and liquidity position. Further, higher-than-expected indebtedness will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty – Lease Rental Discounting
Parent/Group support	NA
Consolidation/Standalone	Standalone

About the company

Gateway Office Parks Pvt Ltd (formerly known as Shriram Properties & Infrastructure Pvt Ltd) is a special purpose vehicle (SPV),

acquired by The Xander Group in June 2017 from the Shriram Group and Sun Apollo Real Estate. The company owns a commercial property named Gateway Office Parks, located in the IT-SEZ in Perungalathur, Chennai, spread across around 3.5 msf of leasable area.

Key financial indicators (audited)

GOPPL – Standalone	FY2022	FY2023
Operating income	142.8	151.2
PAT	-5.9	-83.0
OPBDIT/OI	71.0%	64.9%
PAT/OI	-4.2%	-54.9%
Total outside liabilities/Tangible net worth (times)	14.1	-826.1
Total debt/OPBDIT (times)	9.2	10.7
Interest coverage (times)	1.76	1.03

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, interest coverage ratio is calculated on OPBDIT.

Source: Company annual reports, ICRA Research

Status of non-cooperation with previous CRA – NA

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on February 2024	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				April 26, 2024	April 21, 2023	Apr 20, 2022	-
1 Term loan	Long term	1074.0	1069.0	[ICRA]BBB- (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	-
2 Bank Guarantee	Long term	61.0	0.0	[ICRA]BBB- (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	-
3 Unallocated	Long term	-	-	-	-	[ICRA]BBB+ (Negative)	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Non-fund based – Bank Guarantee	Very 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](https://www.icra.in)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	December 2022	8.9%	FY2037	1074.0	[ICRA]BBB- (Stable)
NA	Bank Guarantee	December 2022	-	-	61.0	[ICRA]BBB- (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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