

June 11, 2024

Sundew Properties Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture (NCD)	400.00	400.00	[ICRA]AAA(Stable); reaffirmed
Total	400.00	400.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Sundew Properties Limited (SPL) continues to factor in the strength of the promoter, with the entity being a part of Mindspace Business Parks REIT (Mindspace REIT, rated [ICRA]AAA (Stable)) and its strategic importance for the parent. SPL contributed to 24% of Mindspace REIT's consolidated NOI for FY2024 and around 16% of the REIT's market value as on March 31, 2024. ICRA notes that certain assets of SPL have been encumbered towards the secured borrowings at Mindspace REIT, leading to higher linkages between the entities.

The rating favourably considers its comfortable leverage and debt coverage metrics. The leverage [Debt¹/Net operating income (NOI)] is estimated to be comfortable at less than 3.5 times in the medium term, supported by low debt levels as well as sustained rental inflows on the back of high occupancy levels. Consequently, the company's debt coverage metrics as reflected by the five-year average debt servicing coverage ratio (DSCR) are expected to remain healthy at above 3.5 times during FY2025-FY2029. The rating factors in SPL's established position, with a favourably located commercial asset in Madhapur, Hyderabad, which has a completed area of 5.8 million square feet (msf), along with healthy occupancy of 97% as on March 31, 2024. The existing tenant profile is strong spread across diversified sectors with lease tenures of 5-15 years, ensuring rental income visibility in the near to medium term.

ICRA, however, considers the moderate lessee concentration risk with the top five tenants contributing to 38% of the gross rentals and occupying 40% of the total leased area as of March 2024. Further, the company's NCD contributing to 58% of the total external debt as of March 31, 2024 is due for repayment on June 28, 2024. The same is expected to be repaid via debt to be raised at Mindspace REIT level over the next two weeks. The high financial flexibility as a part of Mindspace REIT and low leverage as reflected in REIT's LTV of 21.1% as on March 31, 2024 provide comfort. The rating also notes the cyclicity associated with the commercial real estate sector and vulnerability to adverse macroeconomic and external conditions, which could impact the tenant's business risk profiles.

ICRA believes that the company's credit profile will remain stable on the back of a steady operational portfolio, strong tenant profile, comfortable debt coverage and leverage metrics.

Key rating drivers and their description

Credit strengths

Strength derived from parentage and status as a strategically important SPV of Mindspace REIT – SPL, part of Mindspace Business Parks REIT, co-owns and operates one commercial project, Mindspace Madhapur (Hyderabad), with a total completed

¹ Including external debt of SPL and guaranteed debt backed by security of SPL which is raised at REIT level

area of 5.8 msf as on March 31, 2024. The asset portfolio under the REIT includes some of the major business parks in Mumbai, Hyderabad, Pune and Chennai, with a reputed and diversified tenant mix comprising leading multi-nationals and Indian corporates. The REIT’s portfolio includes completed office space area of 26.3 msf, along with under-construction and future development potential of 7.0 msf. SPL contributed to 24% of Mindspace REIT’s consolidated NOI for FY2024 and around 16% of the REIT’s market value as on March 31, 2024.

Comfortable leverage and debt coverage metrics – The company’s leverage (Debt¹/NOI) is estimated to be comfortable at less than 3.5 times in the medium term, supported by low debt levels as well as sustained rental inflows. Consequently, its debt coverage metrics as reflected by the five-year average DSCR are expected to remain comfortable at above 3.5 times during FY2025-FY2029.

Strong tenant profile – The commercial asset is favourably located in Madhapur, Hyderabad, having a completed area of 5.8 msf along with a healthy occupancy of 97% as of March 31, 2024. The existing tenant profile is strong spread across diversified sectors with lease tenures of 5-15 years, ensuring rental income visibility in the near to medium term.

Credit challenges

Moderate lessee concentration risk – The lessee concentration risk is moderate with the top five tenants contributing to 38% of the gross rentals and occupying 40% of the total leased area as of March 2024. Further, the company’s NCD contributing to 58% of the total external debt as of March 31, 2024 is due for repayment June 28, 2024. The same is expected to be repaid via debt to be raised at Mindspace REIT level over the next two weeks. The high financial flexibility as a part of Mindspace REIT and low leverage as reflected in REIT’s LTV of 21.1% as on March 31, 2024 provide comfort.

Vulnerable to cyclical – The company remains exposed to the inherent cyclical in the real estate industry and vulnerability to adverse macroeconomic and external conditions, which could impact the tenant’s business risk profiles. The rating notes the susceptibility of its debt coverage metrics to factors such as changes in interest rates or reduction in occupancy levels.

Liquidity position: Strong

The company’s liquidity position is strong and will be supported by stable rental income from the underlying assets. It has Rs. 400 crore of repayment obligations towards to its NCDs on June 28, 2024 and the same is expected to be funded through loan from the REIT over the next two weeks. The remaining principal repayments of Rs. 16.9 crore in FY2025 can be met comfortably through its estimated cash flow from operations. Additionally, SPL has an undrawn term loan facility of ~Rs. 122 crore as on March 31, 2024.

Rating sensitivities

Positive factors – Not applicable

Negative factors – ICRA could downgrade SPL’s rating if a significant increase in borrowings or a material decline in NOI leads to an increase in the Total Debt/NOI to above 6.0 times on a sustained basis. Further, any deterioration in the credit profile of the Mindspace REIT might have a bearing on SPL’s rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD)
Parent/Group support	Parent Company: Mindspace Business Parks REIT

	ICRA expects that SPL's parent will be willing to extend financial and operational support to it, if required, given the strategic importance of SPL to the Mindspace REIT, and the significant contribution of the SPV to the overall NOI and valuation of the REIT
Consolidation/Standalone	The rating is based on the company's standalone financial statements

About the company

Incorporated in August 2006, Sundew Properties Limited (SPL) was promoted by the CL Raheja Group. It was registered as a private limited company in 2006 and was later converted to a public limited company in December 2012. SPL was acquired by Mindspace Business Parks REIT in July 2020 and is now 89% subsidiary of the REIT, while the balance 11% is held by Telangana State Industrial Development Corporation.

SPL co-owns and operates one commercial project, Mindspace Madhapur (Hyderabad). Mindspace Madhapur is collectively owned by three entities, Intime Properties Limited, K Raheja IT Park (Hyderabad) Ltd. and SPL. Mindspace Madhapur comprises 21 commercial buildings (total leasable area of 13.1 msf), of which SPL owns and operates 8 commercial buildings having a total leasable area of 5.8 msf.

Key financial indicators (audited)

SPL	FY2023	FY2024
Operating income	484.0	524.5
PAT	183.7	213.6
OPBDIT/OI	82.3%	80.9%
PAT/OI	38.0%	40.7%
Total outside liabilities/Tangible net worth (times)	4.7	7.0
Total debt/OPBDIT (times)	1.9	1.8
Interest coverage (times)	5.9	6.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				June 11, 2024	June 22, 2023	July 08, 2022	-
1 NCD	Long term	400.00	399.8	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	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
INE424L07018	NCD	Sept 27, 2021	6.1%	June 28, 2024	400.00	[ICRA]AAA (Stable)

Source: Company

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

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