

## Intelligent Supply Chain Infrastructure Trust

August 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Issuer rating	0.00	CARE AAA; Stable	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The Issuer rating assigned to Intelligent Supply Chain Infrastructure Trust (ISCIT; an infrastructure investment trust [InvIT]) derives significant comfort from its sole special purpose vehicle (SPV), i.e., Intelligent Supply Chain Infrastructure Management Private Limited (ISCIMPL or the warehouse SPV), which has a very strong credit profile due to a warehouse use agreement (WUA) for a long period of 30 years with Reliance Retail Ventures Limited (RRVL; rated 'CARE AAA; Stable/CARE A1+'). The WUA significantly de-risks the business model for the warehouse SPV and provides stability in earnings and cash flows vis-à-vis its debt servicing requirements. The right of first offer pursuant to the WUA also provides the warehouse SPV the opportunity to expand its portfolio of warehouse assets and generate additional revenues and cash flows.

The rating is further underpinned by the strategic importance of the warehouse SPV's operations for RRVL, the geographically well-distributed high-quality warehouse asset base, along with the growing demand for warehousing services in India.

The rating also draws comfort from ISCIT's envisaged consolidated borrowings and deferred payments, the net of cash and cash equivalents at 49% of the enterprise value, which can go up to a maximum of 70% as per the Securities and Exchange Board of India (Infrastructure Investment Trust) Regulations, 2014, as amended (SEBI InvIT Regulations).

The above rating strengths are, however, partially offset by the competition from other organised players in the warehousing sector and the risk associated with the expected external tenancy.

### Rating sensitivities: Factors likely to lead to rating actions

**Positive factors:** Not applicable

### Negative factors

- Any change in the strategic importance of ISCIT's assets to RRVL.
- Any material changes in the WUA with RRVL adversely impacting the cash flows of ISCIT and its warehouse SPV.
- Deterioration in the credit risk profile of RRVL.
- Consolidated net debt/PBILDT exceeding 5x on a sustained basis.

### Analytical approach: Consolidated

For arriving at the rating of ISCIT, CARE Ratings Limited (CARE Ratings) has considered a consolidated analytical view of ISCIT and its sole SPV, i.e., ISCIMPL. Furthermore, the strong operational linkages of ISCIMPL with RRVL have also been considered.

### Outlook: Stable

The 'stable' outlook on the rating reflects the expectation that the warehouse assets of ISCIMPL shall remain strategically important for the operations of RRVL and its long-term WUA with RRVL shall result in steady annuity-like cash flows, leading to a sustained strong credit profile of ISCIT on a consolidated basis.

### Detailed description of the key rating drivers

#### Key strengths

#### ISCIMPL's WUA with RRVL as an anchor tenant, assuring stable and annuity-like cash flows

ISCIMPL has executed a WUA with its anchor tenant, i.e., RRVL, for a tenure of 30 years, thus providing assured revenue visibility. As per the terms of the agreement, ISCIMPL will provide basic services and warehousing services on a non-exclusive basis to RRVL. RRVL has to pay fixed monthly warehouse usage fees and monthly base fees for using the contracted warehouse area. RRVL has committed to utilise 60-80% of the existing warehouse capacity during the tenure of the WUA. ISCIMPL also has a right of first offer for any future warehouse capacity requirements of RRVL that meet the threshold stated under the harmonised list for the infrastructure sub-sector notified by the Ministry of Finance, as amended from time to time. Furthermore, the WUA is non-cancellable by RRVL.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

Furthermore, ISCIMPL has entered into a contract with Jio Infrastructure Management Services Limited (project manager) and Reliance Projects & Property Management Services Limited (operations and maintenance [O&M] contractor) for the O&M as well as for the execution of future projects at a fixed rate, which ensures stable profitability for ISCIMPL.

The long-term nature of the WUA provides annuity-like cash flows to ISCIMPL from RRVL. The cash flows under the WUA with RRVL are expected to be adequate for the comfortable servicing of ISCIMPL's debt repayment obligations. Furthermore, going forward, ISCIMPL is expected to onboard new tenants, which is expected to provide a further cash flow cushion to ISCIMPL.

#### **Strong business linkages and strategic importance for RRVL**

RRVL, a subsidiary of Reliance Industries Limited (RIL), which requires warehouse infrastructure for its retail operations, is the anchor tenant for ISCIMPL. RRVL (on a consolidated basis) continues to scale up its businesses in the existing formats and entering into new segments such as beauty and fast-moving consumer goods (FMCG). Hence, it is economically prudent for RRVL to use the warehouse assets of ISCIMPL, thereby establishing strong operational and business linkages between the two entities.

#### **High-quality and geographically-diversified asset base**

ISCIMPL has a geographically diversified warehouse network across the country with its presence in 34 cities. ISCIMPL has high-quality warehouse assets with an aggregate area of approximately 12.77 million sq ft and it intends to actively market its warehouse assets to new customers to generate additional sources of revenue and cash flows over time. The weighted average balance term for the outstanding leases of assets is around 11.59 years, thereby assuring a long residual life of the assets, and thus, expected to have healthy demand prospects.

#### **Long-term growth potential for the warehousing sector, driven by robust demand**

India's warehousing sector evolved rapidly since 2017 with the implementation of the Goods and Services Tax (GST) and the government according 'infrastructure' status to the logistics sector, including warehousing. The warehousing sector has witnessed consistent growth in the past few years with increasing warehousing space amid robust demand, increasing occupancies, and increasing rent (except during FY21 when the sector was adversely impacted by the COVID-19 pandemic and the consequent lockdowns).

Going forward, the healthy prospects for the organised retail and e-commerce business amid rising disposable incomes and the government's focus on the manufacturing sector is expected to result in a healthy demand growth for the logistics and warehousing sector. Also, the government's focus on infrastructure development, including the logistics and warehousing sector, is likely to aid the expansion of the warehousing space in the country.

RRVL (on a consolidated basis) has consolidated its dominant domestic market position on the back of 18,446 retail stores and 70.6 million sq ft retail area as on June 30, 2023. Consequently, the healthy growth prospects for the domestic retail industry along with RRVL's dominant market position augurs well for the prospects ISCIMPL and ISCIT.

#### **Liquidity: Strong**

The consolidated debt profile of ISCIT comprises debt of ₹2,977 crore along with lease liabilities. ISCIT's sole SPV, i.e., the warehouse SPV, is expected to have stable monthly annuity-like cash flows from RRVL due to the long-term WUA for a period of 30 years, which is envisaged to be adequate for servicing its debt obligations. Furthermore, the long tenure of the WUA as well as the long residual life of the assets are expected to aid in the refinancing of debt, if required.

#### **Key weaknesses**

##### **Highly competitive warehousing sector**

ISCIMPL faces competition from various organised players amid its modest presence, marked by the existing warehousing space of approximately 12.77 million sq ft, in the domestic warehousing sector. However, ISCIMPL's high-quality warehouse assets along with its warehousing services provides it a competitive advantage against other players. Also, ISCIMPL has plans to expand its warehousing space with the onboarding of other tenants.

##### **Risk associated with expected external tenancy**

Apart from RRVL, ISCIMPL has a plan to onboard other tenants. However, the vacancy risk with respect to future expansion, the credit quality of other tenants along with tenure and refinancing risk associated with any future debt, would be a key rating monitorable.

## Applicable criteria

[Criteria on assigning 'Outlook' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Consolidation & Combined Approach](#)

[Rating Methodology - Factoring Linkages in Ratings](#)

[Rating Methodology – Infrastructure Investment Trusts \(InvITs\)](#)

[Rating Methodology – Infrastructure Sector Ratings \(ISR\)](#)

[Liquidity Analysis of Non-financial Sector](#)

[Financial Ratios - Non-Financial Sector](#)

[Issuer Ratings](#)

## About the trust and industry

### Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Services	Logistics Solution Provider #

#Warehouse services provider.

ISCIT is established by RRVL (sponsor; a subsidiary of RIL) as an irrevocable trust pursuant to an Indenture of Trust executed between the sponsor and Axis Trustee Services Limited. ISCIT was registered as an infrastructure investment trust (InvIT) on February 27, 2023, under the SEBI InvIT Regulations.

ISCIT is envisaged to raise a unit capital of around ₹3,048 crore. ISCIT has entered into a binding share purchase agreement with RRVL to acquire 100% equity stake in ISCIMPL immediately post issue and the listing of its units. ISCIMPL has entered into a binding asset purchase and sale agreement with RRVL for the purchase of plant and machinery, electrical installations, fixtures and fittings, and other assets that are present at the warehouses to be operated by ISCIT, at a total value of around ₹4,261 crore. Accordingly, ISCIMPL shall act as the sole SPV of ISCIT and undertake the business of operating warehousing assets transferred to it from RRVL. Furthermore, ISCIMPL has also entered into a binding WUA with RRVL, its anchor tenant, for a long tenure of 30 years, thus providing assured revenue visibility.

**Brief financials:** Not applicable, as it is a recently incorporated InvIT.

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

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Please refer Annexure-3

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-6

### Annexure-1: Details of instruments/facilities

Name of the Instrument	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Issuer Rating- Issuer Ratings	-	-	-	0.00	CARE AAA; Stable

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Issuer rating-Issuer ratings	Issuer Ratings	0.00	CARE AAA; Stable				

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Issuer rating-Issuer ratings	Simple

**Annexure-5: List of entities consolidated in ISCIT**

Sr. No.	Name of the Companies/Entities	Percentage of Holding
1	Intelligent Supply Chain Infrastructure Management Private Limited	100%

**Annexure-6: Lender details:** Not applicable

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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### About us:

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