LI Industrial Parks Private Limited

June 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	281.50 (Enhanced from 258.00)	CARE BBB+; Stable	Revised from CARE A-; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities of LI Industrial Parks Private Limited (LIPPL) has been downgraded due to weaker-than-earlier anticipated debt service coverage indicators owing to increase in interest rates. Further, there was a delay in project execution against previous estimates of the management. Care Ratings Limited (Care Ratings) notes the delay in finalisation of audit process for FY23. As per the management of LIPPL, the delay in audit process was due to lack of manpower resources, due to which, finalisation of accounts was not possible within statutory deadlines. However, there are no qualifications in the audited annual report of FY23. The rating continues to remain constrained by its moderate construction risk and tenant concentration risk.

The rating of LIIPL continues to benefit from the established track record of the Logos group in constructing and managing warehousing space, locational advantage of the warehouse, cash trap mechanism of lease rental discounting (LRD) loans through an escrow account and defined waterfall mechanism, and presence of three months debt service reserve account (DSRA) for both principal and interest for LRD loan. Promoters (Logos India Logistics Venture Fund, LILVF) have provided shortfall undertaking to lenders to bridge shortfalls/cost overruns in funding the project. LILVF has further committed to infuse funds prior to due dates to meet shortfalls in funds owed to lenders.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Timely completion of the project and converting pending construction finance loan to LRD loan.
- Healthy occupancy for all three phases, leading to improving cash coverage ratio (CCR) above 1.2x on a sustained basis.
- Completion of audit process of FY24 in a timebound manner.
- No substantial variance in provisional numbers of FY24 and audited numbers of FY24.

Negative factors

- Significant time or cost overrun in the project.
- Lower-than-anticipated revenues due to non-renewal of lease contracts or delaying payment of lease rentals by lessees, leading to CCR below 1.10x.
- Significantly delaying leasing of balance potential leasable area, impacting the CCR.

Analytical approach: Standalone

Outlook: Stable

The stable outlook continues to reflect comfortable revenue visibility from the completed area, as reflected by favourable terms of the lease contracts, such as long tenure with moderate lock-in period.

Detailed description of key rating drivers:

Key strengths

Strong management and established track record of promoters

LIPPL is 100% owned by Logos India Logistics Venture Fund, part of the Logos group. The Logos group is a well-known global player in the real estate and logistic sector and has total asset under management (AUM) of USD$22.1 billion as on May 2024. Globally, it has around 121 million sq ft warehousing space across 10 countries. In India, Logos has gross leasable area around

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

~6.3 million sq ft. The Logos group was acquired by the ESR Group in 2021, which is one of the leading real estate managers globally. The total AUM of the ESR group stood at USD$140.2 billion as on May 2024. In India, the ESR group's gross leasable area was around 21.00 million sq ft as on May 2024.

Through its venture fund, the Logos group has committed to infuse 42% of the project cost of the warehouse in the form of equity/quasi equity, of which, 83% has been infused as on March 31, 2024, supporting project funding. Given the group's long track record in this field, its expertise and networking will continue to benefit LIPPL.

Maintenance of escrow and waterfall mechanism against LRD loan structure and adequate moratorium on construction finance loan

Given the nature of LRD loan, the company continues to have an escrow account, which ensures its cashflow is routed to fulfil its obligations to first meet statutory requirements, payment arrears in terms of interest and principal, scheduled payment of EMI, followed by maintenance of DSRA and operation and maintenance expenses. In construction finance loan, repayment is triggered on project completion or refinancing of this loan with LRD loan, whichever is earlier. This provides sufficient cushion to the company in terms of debt servicing timeline.

Favourable warehouse location and continued healthy occupancy, leading to revenue visibility in the near-to-medium term

Favourable warehouse location in Luhari, National Capital Region, which has access to National highway 48 within 10kms and with good access to key cities such as Gurugram and New Delhi, continues to benefit the company in terms of high occupancy rate and attractive rental rates. Strong market reach of the Logos group is further expected to aid in leasing tie-ups for the balance leasable area.

The total potential area increased to 3.08 million square feet from ~3.00 million square feet, as the company has acquired an additional land of 1.9 acres. Of this potential area, 2.03 million square feet area (1.68 million square feet) has been completed and 95% of the completed area was occupied as on March 31, 2024. The tenant profile continues to majorly comprise reputed third-party logistic players. Contract tenure is 8-9 years in most cases, with lock-in period for majority of contracts ending in FY27. Long-lease tenure and annual rental escalation of 4%-5% is expected to support revenue visibility in the near-to-medium term.

Key weaknesses

CCR to be impacted in FY25

Care Ratings expects CCR to be impacted in FY25 owing to increase in interest rates from last year in both LRD loan and construction finance loan. There has been a 35-bps increase in interest of LRD loan and 1% in construction finance loan. There will be a draw-down of undrawn construction loan expected in FY25, as the company plans to complete its construction by FY25. Though there has been an increase in rentals charged as compared to last year, delays in leasing the balance area will tighten liquidity, as the company will have to service the interest portion of construction finance loan and debt servicing of LRD loan, from existing rentals, impacting the CCR. CCR is also exposed to adverse changes in interest rate.

Continued moderate construction risk

Construction risk continues to remain moderate, given that 77% of the construction cost was incurred as on March 31, 2024 (70% as on March 31, 2023). As on March 31, 2024, the completion status of Phase 1, Phase 2 and Phase 3 is 97%, 74% and 51% respectively. As per the date of commencement of commercial operations (DCCO), completion timeline for respective phases is FY25, FY26, and FY27, which gives sufficient time to the company to complete construction. As per the management estimates, the project was expected to be completed by Q1FY25, which is now expected to be completed by end of FY25. The total project cost stands at ₹846.79 crore, including contingency fund (₹807 crore, excluding contingency fund). The company has booked exceptional expense of ~₹21.00 crore in FY23 due to damages incurred against Block D, considering natural calamities. As per the management, there will not be cost overruns in the total project cost, considering contingencies factored in the total cost. However, it does expect proceeds from insurance claim in the medium term, which will largely cover this loss against Block D. The company received total of ₹8.6 crore from insurance and scrap sales till date (₹5.00 crore as interim payment from the insurance company).

Exposure to tenant risk

Tenant concentration risk continues, with Mahindra Logistics Limited occupying 71% of the total leased out area. However, given the strong credit profile of this tenant and long tenure and lock-in expiry in FY27-FY28, both credit and revenue risks are mitigated to some extent in the medium term.

Exposure to market risk
Given that the LOIs are still pending for balance unleased area (under-construction and fully constructed as on date), LIPPL is exposed to market risk, considering competition from other warehouses in the vicinity. Luhari has emerged as a major warehousing hub with large warehousing capacity currently available, even in Grade A. Amidst the competition, pricing remains a key monitorable, which is mitigated to some extent given the company's track record of attracting high-quality tenants and realising an increase in rental rates in the last three years.

Liquidity: Adequate

The company's liquidity continues to remain adequate, given the sufficient amount of undrawn debt and equity pending to be infused to fund the pending project cost. The undrawn debt as on March 31, 2024, stood at ₹119.50 crore. Leasing terms continue to stipulate payment of rent in advance at the beginning of the month, while EMIs are due for payment at month-end, ensuring timely payment of debt obligations. In LRD loan, the company has maintained DSRA of one-quarter in the form of fixed deposit. Though the CCR is expected to be impacted in FY25 due to rise in interest rates, it is sufficient to service debt obligations. Moreover, there continues to be an undertaking by the promoter shareholder to bridge the gap in case of shortfalls, including cost overruns and debt repayments prior to relevant due date, which supports the company's liquidity profile. For the existing LRD loan as on March 31, 2024, the total debt obligation including interest and principal stands at ~Rs.32.00 crores. Free cash and bank balance stood at ₹3.45 crore as on March 31, 2024.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Rating methodology for Debt backed by lease rentals

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Realty	Realty	Real estate related services

LIPPL, established on August 28, 2018, is owned by Logos India Logistics Venture Fund. The company is developing a warehouse in Luhari, Haryana named 'Logos Luhari Logistics Estate'. The total leasable area of ~3.08 million sq ft is developed across three phase, Phase 1, Phase 2, and Phase 3.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	9.34	30.39	44.80
PBILDT	3.03	22.63	37.22
PAT	-7.38	-42.93	-34.97
Overall gearing (times)	0.92	1.53	1.96
Interest coverage (times)	0.78	1.12	1.41

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	28/02/2037	281.50	CARE BBB+; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	281.50	CARE BBB+; Stable	-	1)CARE A-; Stable (16-Jun-23)	-	-

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
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