NDR InvIT Trust

September 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating	0.00	CARE AAA; Stable	Reaffirmed
Non Convertible Debentures	2,000.00	CARE AAA; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the proposed non-convertible debentures (NCDs) and reaffirmation of the issuer rating of NDR InvIT Trust (NDRIT) considers the diversified and strategically dispersed portfolio of 33 warehousing assets housed under 20 special purpose vehicles (SPVs), which are spread across key markets – Chennai, Bengaluru, Kolkata, Mumbai, Delhi, Pune, Coimbatore, Sricity, Bilaspur, Goa, and Puducherry. The rating factors in strength from presence of large portfolio of Grade-A assets with completed space of 14.89 million square feet (msf) as on June 30, 2024, which increased from 12.29 msf as on March 31, 2023, and under-construction capacity of 0.52 msf and 1.56 msf identified for future developments. The completed area continues to enjoy near-full occupancy for past two years and healthy weighted average lease expiry (WALE). Strong demand from third-party logistics provider (3PL), retails, auto, and E-Commerce sectors and healthy tenant profile precluding counter-partly risks, wherein top 10 clients occupy 35% of gross rental value continue to provide credit strength. The strong occupancy coupled with lease agreements with creditworthy clientele imparts strong cash flow visibility for NDRIT. The rating also factors healthy market share of the warehousing portfolio and demonstrated track record of NDRIT's sponsor 'NDR Warehousing Private Limited' in developing, operating, and maintaining warehouses.

Following the acquisitions of assets in February 2024, NDRIT partially repaid the SPVs' debt through the proceeds of fresh issuance. As on March 31, 2024, the remaining external debt at the SPVs' level was ₹447.75 crore, with a net external debt to gross asset value (GAV) comfortably below 10%. CARE Ratings takes cognisance of NDRIT's plans to acquire portfolio of operational assets of around 6.81 msf identified under its right of first offer (ROFO) over the next two years ending March 31, 2026 which is planned to be funded through combination of equity and external debt in tranches. As a result, the external consolidated debt is anticipated to increase to approximately ₹2,300 crore by FY26 at NDRIT level, while the SPVs' debt is expected to be retired from NDRIT level debt. The presence of debt at the Trust level will enhance the cash flow fungibility of the SPVs, providing financial flexibility. CARE Ratings anticipates that the net external debt to GAV and net external debt to profit before interest, lease rentals, depreciation and taxation (PBILDT) metrics will remain comfortable post-acquisition, maintaining net external debt to GAV below 35% and net external debt to PBILDT below 5.5x. Any higher-than-anticipated debt that adversely affects the leverage indicators will be a key rating monitorable.

Above rating strengths are partially tempered by refinancing risk emanating from the presence of put option and part of the proposed debt structure having a bullet repayment with an intent to refinance at the time of maturity. Strong asset profile largely mitigates the refinancing risks. NDRIT is also vulnerable to the vacancy risk with about 13-14% leased area due for renewal annually in FY25 and FY26. However, the same is mitigated to an extent with most of the existing rentals being at lower than the market rate resulting in likely stickiness of the client.

This apart, facilities under construction shall also emanate moderate project execution risk. However, as majority of developments are already at an advanced stage, execution risks are significantly minimised. Moreover, NDRIT plans to add only operational assets in the portfolio in the medium term to mitigate construction risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

Not applicable

Negative Factors

- Net external debt/PBILDT exceeding 5.5x on a sustained basis.
- Significantly adding under-construction portfolio.
- Net external debt to gross asset value exceeding 35% on a sustained basis.
- Significantly declining occupancy level or collection efficiency resulting strain in liquidity.

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

Analytical approach: Consolidated

NDRIT's analysis is carried out on a consolidated basis, as NDRIT has acquired 100% stake in 19 SPVs and 74% stake in Varama Sir (India) Logistics & Infrastructure Private Limited. The list of entities consolidated is provided in the Annexure-6.

Outlook: Stable

The Stable outlook factors expected stability in the financial and operational performance of the NDRIT at the back of healthy occupancy levels, strong profile of counterparties, favourable demand prospects, and comfortable leverage.

Detailed description of key rating drivers

Key strengths

Strategically placed warehousing assets

The portfolio of warehouses is strategically located near big manufacturing and marketing hubs in India. The operational portfolio is about 62% in southern India, 19% in west India, and balance 18% in north and east. The portfolio comprises 15.25 msf of Grade A warehouses and 1.71 msf of Grade B warehouses, which are operated from six primary markets (Chennai, Bengaluru, Kolkata, Mumbai, Delhi, and Pune) having 11.05 msf (65%) of leasable area and balance from secondary markets (Coimbatore, Sricity, Bilaspur, Goa, and Puducherry) having 5.91 msf (35%). Moreover, the completed area under portfolio has increased by 21% from 12.29 msf as on March 31, 2023, to 14.89 msf as on June 30, 2024.

Diversified tenant profile with strong cash-flow visibility

The clientele currently being catered by the portfolio feature from a diversified industry with logistics and 3PL forming 43% of the revenues. Besides logistics and 3PL, a healthy proportion is also formed by consumer durables, auto and industrials, retail, and E-commerce. About 35% of revenues are provided by 10 clients, with none of the clients forming more than 6% of the total revenues. Additionally, as about 43% of revenues are from logistics and 3PL, the revenue profile is inherently diversified for such tenants insulating cash flows from seasonality to an extent.

The occupancy of the operational portfolio also stood healthy at 96.48% with healthy WALE as on June 30, 2024, providing strong revenue visibility. The under-construction portfolio has tied-up tenants already in place so the same shall also be cash-flow generating as soon as they are commissioned. Additionally, the cashflow visibility is strengthened by the stickiness of tenants backed by built-to-suit configuration born by the tenants themselves.

Comfortable leverage despite proposed acquisition of operational assets

Post-acquisition of the warehousing portfolio by NDRIT, the primary issue has been utilised to reduce the debt by about ₹535 crore. As on March 31, 2024, the residual debt at SPV levels stood at ₹447.75 crore and the net external debt to gross asset value stood (GAV) stood comfortable at less than 10%. However, CARE Ratings takes cognisance of NDRIT's plans to acquire portfolio of completed assets of around 6.81 msf identified under its right of first offer (ROFO) over the next two years ending FY26, which is planned to be funded through external debt at NDRIT level. As a result, the external consolidated debt is anticipated to increase to approximately ₹2,300 crore by FY26 at NDRIT level, while the SPV debt is expected to be retired. Additionally, the presence of external debt at Trust level will provide cash flow fungibility of the SPVs, lending strength to the financial risk profile. The proposed debt is to carry cash trap mechanism and debt service reserve account (DSRA) covering one quarter debt obligations are other credit positives.

The ROFO assets are expected to be occupied with medium to long-term contracts in place, hence, despite the anticipated increase in debt levels, operational asset portfolio and healthy expected occupancy levels shall lead to comfortable leverage. CARE Ratings expects net external debt to GAV and net external debt to PBILDT metrics of the portfolio to remain comfortable post the acquisition while maintaining net external debt to GAV less than 35% and net external debt to PBILDT less and 5.5x. Any higher-than-anticipated rise in debt impacting the leverage indicators would be a key monitorable.

Strong market presence and established track record of sponsor

The portfolio when fully commissioned shall be one of the largest warehousing portfolios in India wherein it is expected to form a significant market share in the industry. Additionally, sponsor of NDRIT, NDR Warehousing Private Limited, has more than three decades of experience in the warehousing industry; with the sponsor managing the acquired portfolio of which the operational part being one of the largest warehousing portfolios. Overall, the sponsors have an established track record of operating industrial and logistics parks in India, and the investment manager for NDRIT is also an NDR group entity, NDR InvIT Managers Private Limited, which supports the portfolios of business risk profile. The rating also factors investment from Investcorp having experience in real estate investments globally with 21.31% stake in NDRIT.

Favourable demand outlook for warehousing industry

The total warehousing space of top eight cities increased by 12% from 412 msf in FY23 to 462 msf as of June 2024 with overall improvement in the vacancy rate to 9.3% from 12.2% in FY23. Average rent across eight primary markets increased between 3% and 4% with Pune and Chennai recording a 4% growth y-o-y as of June 2024.

The increased demand has been backed by increasing consumption rates, Government's ambitious growth targets of GDP, with manufacturing sector aiming to contribute 25% share of GDP by 2025, reforms to transform India into a global design and manufacturing hub, National Logistics Policy, and the Gati Sakti initiative aiming towards growth of warehousing industry.

Key weaknesses

Moderate vacancy risks and market risks

The trust is exposed to vacancy risks as for the current tenancy. The cumulative lease expiry profile indicates about 27% of the leases due for renewal between FY25 and FY26. Additionally, warehousing leasing rates are subject to demand-supply metrics and are determined by the market which also exposes the trust to market risk. To ensure stable cashflows, the sponsors and the asset managers are required to ensure time-bound renewal of the leases and at appropriate rates. Nevertheless, the group's experience and favourable industry outlook is expected to support the cash flow stability. CARE Ratings shall continue to closely monitor the occupancy profile and rental rates operated by the company and its impact on the leverage profile.

Refinancing risks

NDRIT faces refinancing risk due to presence of put option at the end of five years and bullet repayment at the end of seven years in one of the proposed NCDs. However, strong asset profile, past track record of regular renewal of lease, and resourceful sponsor mitigate the refinancing risk to an extent.

Liquidity: Strong

The warehouses within the Trust's portfolio are well-occupied, resulting in steady rental income and robust cash flows. This contributes to strong debt coverage indicators. NDRIT has created DSRA of ₹20 crore as on March 31, 2024 equivalent to three months of its debt servicing obligations and proposes to maintain a three-month DSRA for additional debt, which provides an additional layer of liquidity.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

The factors of ESG affecting the sector are the environmental aspects such as large land requirement which may need cutting of trees, the social aspects such as community impact and accessibility to markets and governance aspects such as stakeholder engagement, supply chain management, and business ethics. CARE Ratings expects NDRIT's commitment to ESG will support its credit profile. Currently, NDRIT does not have an operational track record to review its ESG profile; however, the highlights of the impact of the NDR group's ESG initiatives are as follows:

Environment:

- Provided standing seam roofing systems and lighting systems within warehouses allowing natural lighting, reducing dependence on conventional energy systems. Solar panels installed in some warehouses.
- Limited the usage of ground water by installing water harvesting facilities in some warehouses. It also recycles water at newer locations through rainwater harvesting chamber.
- Tenants as part of this sustainability journey by encouraging waste segregation management and recycling at all locations.
- The group is also working towards planting saplings.

Social:

- The company strives to create an environment that attracts and retains work force at all locations for ensuring a long-term effective operation for the tenants.
  - Carry out periodic training for staff and on-site employees on health and safety measures and hazard prevention protocols.
  - Through the NDR group's CSR initiatives, the group has contributed to programmes for social and inclusive development.

Governance:

- The group has adopted high standards of corporate governance including, but not limited to, 50% independent board.
- The group has a whistle blower policy and redressal mechanism for employee grievances.

Applicable criteria

Consolidation
Definition of Default
Issuer Rating
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Service Sector Companies
Infrastructure Investment Trusts (InvITs)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Transport services	Logistics solution provider

NDRIT has been settled by the Sponsor (NDR Warehousing Private Limited), as a contributory, determinate and irrevocable trust under the provisions of the Trusts Act in Mumbai, India pursuant to the Trust Deed. NDR InvIT Trust has been registered with Securities and Exchange Board of India (SEBI) as an infrastructure investment trust under the InvIT Regulations on June 5, 2023. NDRIT raised ₹880 crore in February 2024 and has acquired a portfolio of 20 SPVs operating 33 warehouses in India.

Brief Financials (Consolidated) (₹ crore)	March 31, 2024 (A)*	Q1FY25 (UA)
Total operating income	42.72	75.18
PBILDT	30.68	65.79
PAT	18.41	39.39
Overall gearing (times)	0.12	NA
Interest coverage (times)	5.14	7.92

A: Audited; UA: Unaudited; NA: Not available; Note: these are latest available financial results
*Operational period of 52 days as NDRIT commenced operation on February 08, 2024

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 and Rating Outlook
Issuer rating-Issuer ratings		-	-	-	0.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	-*	-*	-*	-*	2000.00	CARE AAA; Stable

*Not applicable as the NCD issue is proposed

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	Issuer rating-Issuer ratings	LT	0.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Mar-24) 2)Provisional CARE AAA; Stable (28-Jun-23)	-	-
2	Debentures-Non Convertible Debentures	LT	2000.00	CARE AAA; Stable				

LT: Long term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Issuer rating-Issuer ratings	Simple
2	Debentures-Non Convertible Debentures	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities forming part of consolidated financial (as on March 31, 2024)

Sr No	Name of entity	Extent of consolidation	Rationale for consolidation
1	NASDA Infra Private Limited	Full	Cash flows for the NDRIT are in the form of distribution from the SPVs held by the NDRIT.
2	NDR AVG Business Park Pvt. Ltd.	Full	
3	LSA Warehousing Solutions Private Limited	Full	
4	Broadview Construction & Holding Pvt. Ltd.	Full	
5	NDR Distribution Centers Private Limited	Full	
6	NDR Factor Private Limited	Full	
7	Valiant Amrut India Infra LLP	Full	
8	Kautilya Warehouse Pvt. Ltd.	Full	
9	NDR Plantation Private Limited	Full	
10	Fabio Beverages Private Limited	Full	
11	Svahgraha Constructions & Holdings Pvt Ltd	Full	
12	NDR Safetore LLP	Full	
13	Seahorse Distribution & Freight Services P Ltd	Full	
14	Sri Amruthalingeswara Warehousing LLP	Full	
15	NDR Bhadra Estate LLP	Full	
16	NDR Vanshil Warehouse Park LLP	Full	
17	NDR Goa Space Private Limited	Full	
18	Varama Sir Logistics &Warehousing Pvt. Ltd.	Moderate	
19	Forefront Logistics Private Limited	Full	
20	NDR Store House Private Limited	Full	

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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