

## IG3 Infra Limited

January 09, 2025

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

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The issuer rating assigned to IG3 Infra Limited (IG3) derives strength from presence of experienced promoters and management. The rating further derives comfort from healthy occupancy of the property, diversified tenant profile, prime and strategic location of Grade A commercial office spaces in Chennai. The rating also factors in comfortable financial risk profile, adequate liquidity position and presence of an escrow mechanism with a debt service reserve account (DSRA) for debt servicing.

However, rating strengths are partially offset by substantial exposure in group companies, risk associated with timely renewals, execution and market risk associated with phase III. CARE Ratings Limited (CARE Ratings) also notes the inherent risks associated with cyclical nature of the real estate industry.

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

#### Positive factors

- Improving external debt to earnings before interest, tax, depreciation and amortisation (EBITDA) to below 4x and cash coverage ratio (CCR) above 1.50x, on a sustained basis.

#### Negative factors

- Decrease in occupancy level of completed phases below 90% on a sustained basis.
- Significant un-envisaged debt addition impacting the leverage profile of the company as marked by CCR of 1.30 or below or debt to EBITDA above 7.5x or overall gearing above 2.50x on sustained basis.
- Further exposure towards group companies (including corporate guarantees) impacting liquidity position of the company.
- Delay in leasing of data centre of ETL Secure Space, for which corporate guarantee is extended.
- Delay in the construction of phase III and tie-up of lease rentals at envisaged rates, resulting in an adverse impact on envisaged cash flow.

### Analytical approach: Standalone

#### Outlook: Stable

The stable outlook reflects CARE Ratings' expectations that IG3 will continue to generate stable leasing income driven by healthy occupancy level and envisaged escalations.

### Detailed description of key rating drivers:

#### Key strengths

##### Experienced promoters and management

IG3 Infra Limited is a Chennai-based company promoted by Unnamalai Thiagarajan. Unnamalai Thiagarajan is the Managing Director of IG3 and has over two decades of experience in real estate industry. IG3 is overseen by its Board of Directors, under the chairmanship of C Ramachandran, IAS (Retired). The promoter is also involved in operating a 5-star hotel - Heritage Madurai.

##### Steady cash flows, supported by healthy occupancy level and reputed tenants

The company is operating an IT SEZ Park named – 'Chennai One' with total leasable area of ~37 Isf. As of November 30, 2024, the company has leased out ~100% of the leasable area mainly to reputed tenants, ensuring stable flow of lease rentals. Most lease agreements are executed for a tenure of over five years with an escalation of 5% annually or 10-15% every three years. The property is leased out to major Indian IT companies and MNCs.

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

### **Favourable location and grade quality assets**

Chennai One IT SEZ is located on Pallavaram-Thoraipakkam, 200 ft. Road, close to the IT corridor of Old Mahabalipuram Road (OMR) in Chennai. The region has emerged as a much-preferred office destination by the IT/ITeS sector. Its proximity to residential complexes, markets, malls, restaurants and school add value to the high-end ambience. The property is well-maintained with quality infrastructure and sustainability features as marked by LEED Gold certification.

### **Presence of structural features such as debt service reserve account (DSRA) and escrow mechanism**

As per terms of the loan agreement, entire cash inflows consisting of lease rentals, and other inflows (CAM receipts, and fit out rent) are required to be routed through designated escrow account. There is a well-defined waterfall mechanism, where debt servicing takes priority over other outflows, demonstrating strong discipline. With escrow and waterfall mechanisms, the company has created DSRA equivalent to three months principal and interest amount, which supplements the liquidity profile.

### **Comfortable financial risk profile**

At current occupancy level, the debt protection metrics remain healthy. In June 2024, the company refinanced its outstanding lease rental discounting loans with a top up of ~₹500 crore totalling to ₹2,200 crore. Post refinancing and factoring additional debt taken, debt to operational income and debt to EBITDA ratio is expected to remain at ~5.32x and ~6.06x respectively in FY25 and CCR is expected to improve to an average of 1.45x in the medium term. It is expected to gradually decline going forward with repayments, expected leasing of phase III, and sustenance in occupancy leading to higher operational income. Further, the company has a land bank of 43 acres in Devanahalli, Bangalore, of which, it has launched residential plotted development project on 19 acres land under the name 'Ekta Elements' with saleable area of 4.15 lsf. The project has a total revenue potential of ₹359 crore with 33% of area being sold as of November 30, 2024, providing additional cash flows to the company.

### **Key weaknesses**

#### **Execution risk and market risk associated with Phase III**

IG3 Infra Limited is undertaking phase III offering a total leasable area of ~6.80 lsf. Phase III will be financed through top up loan of ~₹500 crore. As of November 2024, the company has incurred cost of ₹12 crore. Phase III is in nascent stage with cost incurred being less than 5% of the estimated cost. Phase III is targeted to be completed by December 2025, and the management is in discussion with various clients for leasing. Timely execution of project with no major cost overruns will be monitorable.

#### **Risk associated with timely renewals and leasing out of Phase III**

The company's operational income is susceptible to volatility in occupancies and rental rates. In the next five years, significant area shall be due for renewal. Accordingly, timely renewal of lease agreements and realisation of escalations as envisaged remains crucial for effective cash flow management. The company is also exposed to marketing risk with leasing additional area under phase III. Long track record of operations of promoter and its established relationship with tenants, provides comfort in terms of sustenance of healthy occupancy level.

#### **Tenant and revenue concentration risk**

The company is exposed to tenant concentration risk as top five tenants occupy ~71% of total leased area and contributes 71% of total operational income.

#### **Geographic concentration risk**

IG3 owns single IT SEZ Park, positioned at a single micro-market in Chennai, exposing the company to geographical concentration risk. Any adverse development or decline in demand in such micro-market may significantly impact rentals and occupancy of the company. Nevertheless, prime location of the asset reduces risk to a certain extent.

#### **Substantial exposure in group companies**

IG3 has significant exposure in its group companies through equity, unsecured loans and advances and corporate guarantees. As on March 2024, total exposure is to the tune of ~₹458 crore. Further, the corporate guarantee of ₹380 crore extended to ETL Secure Space Limited is for constructing a data centre, with loan yet to be drawn. Another corporate guarantee of ₹50 crore extended to Grand Luxe Hotels Limited has an outstanding loan of ₹ 25 crore. Given that the hotel business is generating sufficient funds, the probability of this corporate guarantee getting invoked is low. While IG3's cash flows are adequate to meet its operational and debt servicing obligations, any significant support extended from business operations, impacting the company's liquidity will remain monitorable.

#### **Inherent risk associated with cyclical real estate industry**

The company is exposed to cyclicity associated with the real estate sector, which has direct linkage with general macroeconomic scenario and interest rates. Rental collection remains susceptible to economic downturns, which may constrain the tenant's business risk profile, and therefore, limit occupancy and rental rates.

**Liquidity: Adequate**

Adequate liquidity of IG3 is characterised by adequate rental collection against debt obligation of ~₹51 crore in Q4FY25 and ~₹234 crore in FY26. The company has free cash and bank balance of ₹35.81 crore and unutilised sanctioned overdraft limit of ~₹29.52 crore as on November 30, 2024. The company also has sufficient unencumbered and encumbered fixed deposits along with DSRA of ~₹44.75 crore, which supplements the liquidity profile.

**Assumptions/Covenants – Not applicable****Environment, social, and governance (ESG) risks – Not applicable****Applicable criteria**
[Definition of Default](#)
[Issuer Rating](#)
[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**

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Realty	Realty	Residential, commercial projects

Incorporated in 2004, IG3 Infra Limited (formerly known as Indian Green Grid Group limited) is a Chennai-based company engaged in developing and maintaining IT SEZ Park – ‘Chennai One’ at Pallavaram – Thoraipakkam in Chennai with total leasable area of ~37 Isf. IG3 is public unlisted company and is promoted by Unnamalai Thiagarajan. The company completed the first phase of Chennai One with a leasable area of 10.56 Isf in FY 2007. The second phase, consisting of North and South Block with leasable area of 26.68 Isf was commercialised in FY 2016 and FY 2019, respectively. Currently, the company is operating at healthy occupancy of ~100%. The company is constructing third phase, with a leasable area of 6.80 Isf, which is targeted to be completed by December 2025.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	299.89	349.60
PBILDT	219.15	264.44
PAT	21.07	86.92
Overall gearing (times)	2.16	1.89
Interest coverage (times)	1.27	1.52

A: Audited; 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****Detailed explanation of 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Issuer Rating-Issuer Ratings		-	-	-	0.00	CARE A-; 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	Issuer Rating-Issuer Ratings	LT	0.00	CARE A-; Stable				

LT: Long term

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

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