Infopark Properties Limited

June 30, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non Convertible Debentures	681.10	CARE A-; Stable (Single A Minus; Outlook: Stable)	Assigned
Total Long Term Instruments	**681.10 (₹ Six Hundred Eighty-One Crore and Ten Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the non-convertible debentures (NCDs) of Infopark Properties Limited (IPL) takes into account its majority holding by 'Tata Realty and Infrastructure Limited [TRIL, 100% subsidiary of Tata Sons Private Limited]' as well as financial flexibility it enjoys by virtue of being part of the TATA group. Moreover, as a commercial leasing arm, TRIL Infopark Limited (TIL) with its underlying asset- Intellion Park, Chennai (IPC), which it proposes to own, is strategically important for the group. The rating takes comfort from steady revenue profile of IPC supported by healthy occupancy level of over 90% in the past four years, strategic location, and prime quality. Further, the asset has strong tenant base with presence of top multinational companies having association for a considerable timeframe.

CARE Ratings Limited takes note of the proposed joint venture between TRIL and Canada Pension Plan Investment Board (CPPIB) to jointly own IPC.

The rating at combined level is, however, constrained by leveraged capital structure owing to elevated debt levels post draw down of additional debt in IPL, moderate cash coverage ratio, agreement roll over risk exacerbated due to potential vacancy by three tenants occupying around 17% of leasable area, as well as geographic and industry concentration risk. Furthermore, realization of rentals with escalations for existing tenants and prevailing market rates for new leasing shall remain crucial from credit perspective. Additionally, any significant decline in occupancy as a result of resurgence of COVID-19 and resultant adoption of 'work from home' shall also be key rating monitorable.

The rated NCDs are proposed to be issued to Qualified Institutional Buyers (QIBs) for the discharge of balance consideration towards purchase of TIL from its shareholders and ultimately merging it with IPL and other transaction related costs and expenses.

The rating of the said NCDs takes into consideration the flexibility of IPL to meet the debt obligations anytime until the end of tenure of fifteen years. However, the rating is constrained as compared to senior debt (external NCDs) owing to lower cushion available to meet the obligations over the tenure of rated NCDs.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- The receipt of better than envisaged lease rentals or considerable deleveraging leading to significant improvement in Cash coverage ratio (CCR) to over 1.70x and debt/rentals to below 3x on sustained basis.
- Conversion of NCDs into debt facility with long repayment tenure, well defined escrow and waterfall mechanism.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any material changes in the shareholding pattern with stake of TRIL/Tata group (directly/indirectly) falling below 51%
- Significant deterioration in debt/rental and cash coverage ratio of IPC, as a result of increase in external indebtedness or significant decline in the occupancy level, on a sustained basis.
- Deterioration in the credit risk profile of TRIL.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and strategic importance of the entity: The strategic importance of TIL and IPL (combined) is reflected from the considerable size of asset of 4.6 msf, generation of sizeable cash flows of close to Rs.500 crore annually, and healthy valuation of the asset. Furthermore, IPC is the largest commercial leasing asset of all the projects housed under TRIL, and hence draws significant economic benefits for the parent. TRIL is a 100% owned subsidiary of Tata Sons Private Limited (TSPL), the principal holding and promoter company of the Tata group. The entity is also expected to derive significant benefits from managerial expertise of TRIL.

Healthy occupancy level, albeit expected to moderate in near term: Owing to prime location, quality construction and fine infrastructural amenities offered, the occupancy level of the target asset remained strong in the past four fiscals. During FY18-FY20, IPC had maintained full occupancy which slightly declined to ~96% in FY22. Such healthy occupancy level had translated into steady revenue profile of with over Rs. 500 crore being garnered in the past four fiscals. However, going forward, such occupancy levels of the company are expected to moderate to close to 80% as three tenants of the company

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

occupying around 17% of the leasable area have intended to vacate the occupied space by August 2022. While, such vacancy is expected to moderate the revenue profile, IPC shall continue to garner revenue of over Rs.500 crore in FY23.

Diversified and strong tenant base: The tenant profile of IPC is strong with presence of multi-national companies such as Amazon, Astrazeneca, Citi Bank, Mindtree, Societe Generale, Genpact, Tata Consultancy Services etc. This apart, the tenant profile remains moderately diversified with top 10 tenants of the company contributing over 70% of rental income.

Favourable location and asset quality: IPC is an information technology special economic zone (IT SEZ) situated in Chennai, India. The tech park is developed at the centre of southern business district in Taramani and is well connected with key areas of the city. The location has evolved as one of the major office landmarks for IT companies. This apart, quality of the asset remains superior which is reflected from more than 95% of occupancy in past three fiscals and presence of eminent tenants since long. The commercial asset is now also supported by construction of convention centre of over 7000 sqft and service apartments (112 rooms) which are operational and shall be managed by Taj Wellington Mews. The presence of convention centre and service apartments serves as a healthy demand driver for the corporates. Thus, it is poised to have healthy demand prospects considering location and asset quality.

Key Rating Weaknesses

Leveraged capital structure: For the purpose of investment in TIL, IPL shall be raising debt of around Rs.1900 crore which is to be serviced through cash flows generated by IPC. Resultantly, aggregate debt level of TIL and IPL is expected to increase to close to Rs. 3950 crore as at the end of FY23. Accordingly, the gearing level expected to increase to over 4x (at combined level) as at the end of FY23. Furthermore, debt to rental is expected to be over 10x as at the end of FY23. Hence, gearing level and debt protection metrics of the company are expected to be on the higher side in near to medium term.

Low cash coverage ratio in near term: Owing to potential vacancy by three tenants post Aug-22, the rental income of IPC in FY23 is expected to reduce considerably and hence, cash coverage ratio (CCR) of in FY23 is expected to remain low at slightly above unity. While post FY23, the CCR of the company is expected to stand moderate in the range of 1.10x-1.72x, due to sizeable scheduled repayments as a result of elevation in debt level to Rs.4000 crore. While the CCR is expected to remain low to moderate throughout the tenure of the debt, comfort is drawn from the expected liquidity build-up in the forthcoming years which shall be utilised in the event of any cash flow mismatches, if any, arising out of higher than envisaged vacancy. The company has flexibility to meet the debt commitments of rated NCDs, any time before fifteen years. The company is expected to have lower cushion to meet such commitments in near to medium term, hence, is expected to meet accumulated debt obligation in long term through adequate liquidity build up in the forthcoming years.

Agreement roll over risk: Apart from potential vacancy of 17% of leasable area, the lease period for most of other tenants is also expiring in the upcoming five years. The ability of IPC to renew such agreements and quickly identify the replacement to fill up the potential vacancy, shall remain crucial to maintain revenue profile and from credit perspective. Weighted Average Lease expiry (WALE) remains moderate at close to 3 years.

Geographic and industry concentration risk: The project is exposed to the geographical concentration risk inherent with single project portfolios. TIL in its project portfolio has single IT park and the entire leasable area is positioned at a single micro-market in Chennai. Any adverse development or decline in the demand in such micro-market may significantly impact the rentals and occupancy of the IT park. This apart, more than 60% of tenants of the park belong to two sectors viz. IT and financial services, on account of which there exists industry concentration risk. Any significant impact on such sectors may impact its occupancy.

Commercial real estate scenario amid COVID-19: The office market in India had been on a growth trajectory during the last preceding four years until the start of the COVID-19 pandemic. COVID-19 has impacted the growth trajectory, resulting into lower net absorption and completions before witnessing the recovery in the past couple of quarters with the COVID-19 vaccinations drive picking up pace and minimal disruptions due to the third wave of the pandemic. With Chennai contributing significantly to India's absorption and completion levels, vacancy levels are expected to remain under control.

Liquidity: Adequate

The cash and bank balance of TIL and IPL (combined) stood at around Rs.64 crore as on Mar 31, 2022 (including DSRA in TIL of Rs. 14 crore). Net project inflows (combined) are adequate to serve the debt commitments with CCR in the range of 1.10-1.70x over the tenure of debt (except FY23, wherein CCR is expected to be slightly above unity).

Analytical approach: Combined.

For arriving at the rating assessment, combined cash flow position of TIL and IPL is considered. CARE Ratings has applied its parent linkages criteria to factor in the managerial and financial linkages with the ultimate parent- TRIL and strategic importance of the entity to the parent.

Applicable Criteria
Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Rating methodology for Debt backed by lease rentals

About the Company
Infopark Properties Limited (IPL) is an intermediate holding company formed in November 2021, with 100% shareholding of TRIL. IPL will own 100% of shareholding in TIL. TIL was incorporated in 2008 as a special purpose vehicle (SPV) of TRIL, Indian Hotels Company Limited, and Tamil Nadu Industrial Development Corporation Ltd. TIL operates an asset viz. Intellion Park, Chennai (IPC), spread out at an area of 4.6 msf. The project has commercial office space with six buildings- all being operational. This apart, the project also comprises a hospitality property, viz., Taj Wellington Mews, which includes service apartments (112 rooms: 96 studio apartments of 474 sqft each and 16 one bedrooms of 797 sqft each) and convention centre of over 7,000 sq-ft (divided in to one meeting hall, four meeting rooms and one boardroom). The said service apartments and convention centre are recently completed and expected to operational from Q1 FY23.

As on Mar 31, 2022, TRIL holds 100% stake in TIL and a joint venture is proposed between TRIL and Canada Pension Plan Investment Board (CPPIB) to jointly own the asset (IPC).

Brief Financials: IPL.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (Prov.)
Total operating income	Not applicable	Not applicable	Not available
PBILDT			
PAT			
Overall gearing (times)			
Interest coverage (times)			

Note: Since the company was incorporated in November, 2021, financials for FY20 and FY21 are not applicable. Financials for FY22 are not available.

Brief Financials: TIL

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (Prov.)
Total operating income	569.03	542.57	NA
PBILDT	411.66	401.10	NA
PAT	59.05	84.09	NA
Overall gearing (times)	2.79	2.15	NA
Interest coverage (times)	1.87	2.24	NA

A: Audited NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

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 along with Rating Outlook
Debentures-Non Convertible Debentures		-	-	**June 2037**	681.10	CARE A-; Stable

Annexure-2: Rating history of 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non Convertible Debentures	LT	1900.00	CARE A+; Stable	1)CARE A+; Stable (26-Apr-22)	-	-	-
2	Debentures-Non Convertible Debentures	LT	681.10	CARE A-; Stable				

*Long term/Short term.

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

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Debentures-Non Convertible Debentures	Simple

Annexure 5: Bank Lender Details for this Company: Not applicable

Note on complexity levels of the rated instrument: CARE Ratings Limited 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 for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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