IG3 Infra Limited

February 12, 2018

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
(i) Long-Term Bank Facilities (Lease Rental Discounting)	1360	CARE BB+ (SO); Stable [Double B Plus (Structured Obligation); Outlook: Stable]	Assigned
(ii) Long-Term Bank Facilities (Term Loan)	-	-	Withdrawn
Total Facilities	**1360 (Rs. One thousand three hundred and sixty crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the Lease Rental Discounting [LRD, facility – (i) above] of IG3 Infra Limited (IG3) factors in the ring fencing of current and future lease rentals of 'Chennai One' (Phase I and Phase II), an IT park owned by the company, through an escrow mechanism and a waterfall mechanism for debt servicing. The rating also takes note of the existing long term lease agreements with reputed clients for the entire phase I of the IT Park and for a significant part of the First Block in phase II. However, the rating is, constrained by the moderate coverage indicators, inherent lease agreement renewal risk, income concentration from a single tenant, inherent risk associated with real estate industry and exposure to group companies & other non-cash generating projects.

The rating derives strength from the presence of escalation clauses in lease agreement providing for periodic increase in lease rentals and strategic location of the property.

Going forward, ability of the company to diversify its tenants , enter into agreements for the balance space at competitive rentals, , escalation and timely renewal of leases and monetise its investments would be key rating sensitivities.

Further, CARE has withdrawn the rating assigned to the earlier rated long-term bank facilities (Facility (ii) in the above table) of IG3 with immediate effect, as the company has fully repaid these facilities and there is no outstanding against the said facilities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate coverage indicators

As of December 2017, Phase I operates at 100% occupancy levels, while Phase II – First Block operates at 60% occupancy levels which is expected to increase to 72% in the near term, with lease agreements in place for the additional space. While, the occupancies in C1 and C2 – First Block provides moderate comfort to the cash flows, the ability of the company to sustain and scale up these occupancies in the near term will be important given that the high debt levels and ballooning nature of repayments. Meanwhile, the company is yet to complete the Phase II – Second Block. Ability of the company to complete the same within timelines and attract tenants at competitive rentals in the medium term will also be important to its prospects.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications*

Revenue concentration and roll over risk

Out of the total space rented out as of December 2017, TCS alone occupies 64%. This exposes the company to revenue concentration risk from a single client. Further, the tenure for LRD loans is 15 years, whereas, lease agreements of leased area have a lock-in period in the range of 3 years to 5 years, leading to roll-over risk. Further, the lessees can terminate a lease by giving three months' notice.

Exposure to group companies and other non-cash generating projects

Besides investments in C1 and C2, IG3, in the past has also invested in debt funded projects including a mall at Coimbatore, thermal power plant at Erode and a Disaster Recovery site at Bengaluru. Further, as on March 31, 2017 the company had investments and outstanding loans & advances extended to related parties and subsidiaries. The company has also extended corporate guarantee to its group company (which is engaged in the construction of C1 and C2) on even date. The exposure to the group companies and other projects provide limited capital cushion and far exceed the networth base of the company.

Key Rating Strengths

Refinancing of loans during FY18 and presence of structured payment mechanism for new LRD loans

IG3 has refinanced its entire outstanding bank facilities using LRD loans sanctioned by a consortium of banks. The loans envisage a structured payment mechanism wherein the existing and future rentals from both the phases of the IT park would be routed through an escrow account whereby the monthly debt servicing is first met. The escrow account has since been created. Further, for the loans availed from PNBHFL a Debt Service Reserve Account (DSRA) equivalent to three months interest payments is maintained as fixed deposit under lien.

Presence of long term lease tie ups with reputed lessees with periodic escalation clauses

IG3 has entered into long term lease agreements with most of its clients and the lease agreements also provide for periodic escalations. The property is currently leased out to reputed IT companies for lease period ranging from 5 to 10 years and lock-in period ranging from 2 years to 10 years. The presence of such long term lease agreements and lock-in period provide long-term revenue visibility for the company.

Prime location of the property

C1 is the first SEZ on the Chennai's IT Corridor, Old Mahabalipuram Road (OMR) and is close to the Chennai city in terms of distance. Furthermore, proximity to the city centre, easy access to the airport, availability of good quality office buildings, affordable rents and developed social infrastructure are some of the reasons that have led to the above region attracting major IT/ITeS occupiers.

Experienced Promoters

The promoters have over two decades of experience in the real estate/ construction business. Ms Unnamalai Thiagarajan, founder promoter, is the Managing Director of IG3. IG3 is managed and controlled by its Board of Directors, under the Chairmanship of Mr C Ramachandran IAS (Retired).

Analytical approach: Standalone

Applicable Criteria

CARE's policy on Default Recognition

CARE's Criteria on assigning Outlook to Credit Ratings

Financial ratios –Non-Financial Sector

Factoring linkages in Ratings

About the Company

IG3 (formerly known as Indian Green Grid Group Limited) is a Chennai-based company engaged in the business of developing and maintaining comprehensive infrastructure facilities like IT Parks / IT SEZ. IG3 is currently operating an IT SEZ (C1) in Chennai. IG3 was promoted by Ms Unnamalai Thiagarajan & her Associates along with Elnet Technologies Limited (ETL) in the year 2004.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	99	121
PBILDT	29	86
PAT	-42	-5
Overall gearing (times)	1.49	1.49
Interest coverage (times)	0.86	1.20

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	-	-	Sep 2032	1253.00	CARE BB+ (SO); Stable
Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	-	-	Sep 2032	107.00	CARE BB+ (SO); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	1)CARE D (25-Apr-17)	1)CARE D (11-Apr-16)	1)CARE D (27-Apr-15)	-
2.	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	1253.00	CARE BB+ (SO); Stable	-	-	-	-
3.	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	107.00	CARE BB+ (SO); Stable	-	-	-	-

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