IG3 Infra Limited

October 5, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1345.04 (reduced from 1360)	**CARE BBB- (SO); Stable [Triple B Minus (Structured Obligation); Outlook: Stable]**	Revised from CARE BB+ (SO); Stable [Double B Plus (Structured Obligation); Outlook: Stable]
Total Facilities	**1345.04 (Rupees One Thousand Three Hundred and Forty Five crore and Four lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the Lease Rental Discounting (LRD) facilities of IG3 Infra Limited (IG3) takes into account the improvement in occupation level in its IT Park Chennai One's and completion of civil work of Phase II Block 2. Further, the rating also factors in the ring fencing of current and future lease rentals of 'Chennai One' (Phase I and Phase II) through an escrow 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. The rating also derives strength from the presence of escalation clauses in lease agreement providing for periodic increase in lease rentals and the strategic location of the property.

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 and other non-cash generating projects.

Going forward, ability of the company to complete the interior work in Phase II Block 2 and let out the property on planned timelines, diversify its tenants, enter into agreements for the balance space in Phase II Block 2 at competitive rentals, escalation and timely renewal of leases and monetize its investments would be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Prime location of the property: Phase I of 'Chennai One' is the first IT Park in the SEZ near Chennai's IT corridor, Old Mahabalipuram Road (OMR) and is relatively close to the city in terms of distance. The region has emerged as a much preferred office destination by the IT/ITeS sector.

Phase I of the IT Park has been fully occupied since the start of its operations in December 2006. Further, as on August 2018, the occupancy level in Phase II Block 1 also improved to 74% from 60% in December 2017. The company has also signed lease agreements which are expected to increase the occupancy level in the block to 84% in the next two years. Further, IG3 has completed the civil construction of the Phase II Block 2 and expects occupancy to begin by Q4FY19.

Structured payment mechanism with escrow account: IG3 has refinanced its entire outstanding bank facilities sanctioned by a consortium [PNB Housing Finance Limited (PNBHFL) and Canara Bank (CB)] led by PNBHFL in Q1FY19 (refers to the period April 1 to June 30). 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, maintained with HDFC Bank with Axis Trustee Services Ltd acting as the security trustee, whereby the monthly debt servicing is first met. The escrow account is operational. Further, for the loans availed from PNBHFL a Debt Service Reserve Account (DSRA) equivalent to 1.5 months' interest payments is maintained as fixed deposit. For the loan availed from CB, a DSRA of 1 months' interest payments is maintained in the current account with applicable amount under lien.

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).

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

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

3 to 10 years. The presence of such long term lease agreements and lock-in period provide long-term revenue visibility for the company.

Key Rating Weaknesses

Revenue concentration and roll over risk: Of the total space let out as of August 2018, TCS alone occupies around 59%. This exposes the company to revenue concentration risk from a single tenant. 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 10 years, leading to roll-over risk. Further, the tenants can terminate a lease by giving three months' notice.

Moderate coverage indicators: As of August 2018, Phase I operates at full occupancy levels, while Phase II Block 1 operates at 74% occupancy levels which is expected to increase to 83% in the near term, with lease agreements in place for the additional space. While, the occupancies in Phase I and Phase II Block 1 provide 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 the high debt levels and step up EMIs. Meanwhile, the company has completed civil construction of Phase II Block 2 and expects tenant occupation to commence by Q4FY19. Ability of the company to commence operations of Block 2 within timelines by attracting tenants at competitive rentals would be important from a credit perspective.

Exposure to group companies and other non-cash generating projects: Besides investments in Phase I and Phase II, IG3, in the past had 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, 2018 the company had investments and outstanding loans & advances extended to related parties and subsidiaries to the tune of Rs.428.23 crore. The exposure to the group companies and other projects provide limited capital cushion to IG3.

Analytical approach

Standalone

Applicable Criteria

CARE's Criteria on assigning Outlook to Credit Ratings
CARE's policy on Default Recognition
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)	FY17 (A)	FY18 (A)
Total operating income	120.95	178.01
PBILDT	85.60	124.37
PAT	-5.34	-10.98
Overall gearing (times)	1.49	2.04
Interest coverage (times)	1.20	1.42

A: Audited

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of 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-Lease rental discounting/ Rent Receivables Financial	-	-	March 2033	845.86	CARE BBB- (SO); Stable
Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	-	-	April 2033	499.18	CARE BBB- (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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (12-Feb-18) 2)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	845.86	CARE BBB- (SO); Stable	-	1)CARE BB+ (SO); Stable (12-Feb-18)	-	-
3.	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	499.18	CARE BBB- (SO); Stable	-	1)CARE BB+ (SO); Stable (12-Feb-18)	-	-

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