Kosmo One Business Park Limited
(Formerly known as Indiabulls Infrastructure Limited)

August 28, 2020

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term bank facilities	608.24 (reduced from 740.00)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Total	**608.24 (Rupees Six Hundred Eight Crore and Twenty-Four Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to bank facilities of Kosmo One Business Park Ltd (KOBPL) continues to remain underpinned by strong and resourceful promoter group having extensive experience in the real estate business, strategic location of the property, healthy occupancy levels, long standing relationship with reputed tenants with limited counterparty risk, favorable lease agreement terms with presence of lock-in period & escalation clause, timely renewal of expiring leases and presence of escrow mechanism for routing of cash flows.

The rating also take cognizance of growth in KOBPL's scale of operations along with healthy profitability and partial recovery of business advances, which was utilized to create Debt Service Reserve Account (DSRA), capex towards refurbishment of asset and improve its liquidity cushion.

The rating, however, continue to remain constrained on account of KOBPL's leveraged capital structure, moderate debt coverage indicators, concentrated revenue profile, exposure to lease renewability risk, interest rate fluctuation risk and overall cyclicality associated with the real estate industry.

The ratings are also constrained on account of KOBPL's significant debt repayment obligation in December 2020 and contingency with respect to leasing of sizeable space under indemnity, which expires in June 2021.

CARE also takes cognizance that KOBPL has not availed moratorium on its debt obligations, as a COVID-19 relief measure, as permitted by Reserve Bank of India (RBI).

Key Rating Sensitivities:

Positive Factors:

- Improvement in its occupancy ratio above 90% by way of entering of new long-term lease agreements for indemnified space before June 2021 at healthy rates.
- Timely recovery of advances from Indiabulls Construction Limited (ICL) along with infusion of envisaged funds by Blackstone Group for bullet repayment falling due in December 2020.
- Significant improvement in operational parameters on a sustained basis leading to improvement in debt coverage indicators.

Negative Factors:

- Substantial delay in leasing of indemnified space beyond June 2021.
- Non-renewal of expiring lease contracts leading to occupancy levels dropping below 80% on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoter group: USA-based Blackstone Group is one of the world's largest alternative asset management firm. Since its entry in Indian Real Estate market in 2011, Blackstone Group has become the largest owner of Class A office spaces in India with a portfolio spanning over 70 million sq. ft.

Earlier, the Kosmo One Business Park was owned and operated by Indiabulls Group. During July 2018, Blackstone Group acquired the entire management control of KOBPL from Indiabulls. Currently, Blackstone Group holds an equity stake of 38% in KOBPL while, the balance stake is held by Indiabulls Real Estate Limited (IBREL). Transfer of balance stake to Blackstone Group was due to take place in Q1FY21, however, due to recent changes in India's FDI policy, the same has been delayed. The transaction is expected to be completed once necessary clarifications w.r.t. FDI in Real Estate are received from India Government.

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

Strategic location of the property: Kosmo One Park is located in the Ambattur Industrial Estate in Chennai and is the largest IT Park in the vicinity. It is strategically located on the Chennai by-pass road, which interconnects NH45, NH4, NH205, and NH5 and is well connected through road as well as metro. Due to limited supply of leasable commercial space in the Ambattur area and its close proximity to residential neighbourhood, Kosmo One is a preferred destination by various MNCs to setup their back offices in the park.
Since its acquisition, the Blackstone Group has focused on improving the visual appeal along with up gradation of various amenities, including complete revamp of the food court. Property management has been outsourced to Embassy Services Pvt Ltd, which has a vast experience in maintenance of office parks across India.

Long standing relationship with reputed tenants along with timely renewal of expiring leases: KOBPL has an established relationship with its tenants and on June 30, 2020, around 57% of the leased space with top ten tenants has been occupied by the same tenants for more than 10 years. The space is leased out to reputed tenants like RBS Services India Pvt Ltd, Kone Elevator India Pvt Ltd, Access Healthcare Services Pvt Ltd, Yes Bank Ltd, etc. amongst others translating to lower counterparty risk. Except minor delay in few cases, lease rent payments has been received by due date. Furthermore, since last review, KOBPL has renewed the expiring lease contracts to the tune of 4.44 lac sq. ft. with its existing tenants. Furthermore, in past, the existing tenants have been proactive in taking up the vacated / additional space to expand their business setup.

Healthy occupancy levels along with favourable lease agreement terms: As on June 30, 2020, occupancy ratio remained healthy at 90% (including indemnity from IBREL), in line with last three years. The lease agreement is entered for an initial lease tenor of 3 years, to be renewed at an interval of 3 years going forward. Also, all the initial lease agreements have a lock-in period with an escalation in lease rentals by 15% every three years and 5% escalation in common area maintenance (CAM) charges every year. KOBPL also collects an interest-free refundable security deposit, ranging from 6 months to 10 months of lease rental and CAM charges from its tenants.

Increasing scale of operations along with healthy profitability: During FY20, KOBPL’s total operating income (TOI) grew by over 12% to Rs.92.78 crore owing to entering of new lease contracts at higher rates, increase in CAM charges and renewal of existing contracts with rate escalation. PBILDT margin continued to remain healthy at 74.63% (PY: 74.42%). However, owing to significantly high interest costs and depreciation charge, KOBPL incurred a net loss of Rs.18.61 crore during FY20 (PY: Net loss of Rs.25.20 crore).

Presence of escrow mechanism for debt repayment along with creation of DSRA: All the project receivables (including CAM and other related income) are deposited by tenants in the escrow account maintained with the State Bank of India. As per the escrow agreement, lease rentals will be first appropriated towards meeting the statutory obligations and routine maintenance expenses followed by debt servicing. Surplus cash flow at the end of the month can be utilised by the company at their discretion. Furthermore, during FY20, KOBPL has created DSRA of Rs.18.75 crore by way of lien-marked liquid investments, which is equivalent to one quarter of interest and debt servicing obligation.

Key Rating Weaknesses
Lease termination and interest rate risk: KOBPL remains exposed to lease termination risk as well as risk of non-renewal of its expiring leases. However, majority of the tenants have invested significantly in fit-outs, which acts as an exit-barrier and reduces the risk to an extent.
During FY20, KOBPL’s largest occupant of park i.e. Yes Bank Ltd has partly vacated the space upon expiry of the lease agreement (approx. 26% of the total leasable area). However, this vacancy shall not have an impact on KOBPL’s cash flow due to indemnity agreement with IBREL, wherein the latter will pay lease rentals and CAM charges to KOBPL at escalated rates till June 2021. Accordingly, KOBPL has been receiving indemnity payments from IBREL, albeit with a significant delay. However, KOBPL has sufficient liquidity to fund its debt repayment as well as working capital requirements. Leasing of this vacated space before the expiry of the indemnity agreement would remain crucial from the credit perspective.
Furthermore, KOBPL remains exposed to changes in interest rates as interest payments on term loan are linked to MCLR rate. However, owing to recent reduction in interest rates, KOBPL has benefitted by way of reduction in its lending rates.

Revenue and industry concentration: KOBPL remains exposed to revenue concentration risk since top 5 tenants (including IBREL indemnity) occupy 82% of the total leased space as on June 30, 2020. Also, end-industry concentration in BFSI and BPO industry exposes KOBPL to economic slowdowns in these segments. However, majority of the tenants have undertaken major fit-out expenditures and they have been renewing their lease agreements regularly, mitigating tenant concentration risk to an extent.

Leveraged capital structure and moderate debt coverage indicators: KOBPL's overall gearing deteriorated as on March 31, 2020 to 2.80x (PY end: 2.38x) owing to book losses in FY20. Debt coverage indicators also remained modest marked by an interest coverage of 1.02x during FY20 (FY19: 1.17x). The asset to loan value (based on market price), however, remained moderate at 1.59x as at FY20 end.

Delay in receipt of advances from ICL along with significant repayment obligation at the end of Q3FY21: As a part of acquisition deal between Blackstone and Indiabulls, KOBPL was due to receive Rs.125 crore from ICL (repayment of business advances), which were to be utilised for bullet repayment of Rs.125 crore due in June 2020. Furthermore, acquisition of balance equity shares held by IBREL along with fresh infusion was also planned by Blackstone Group in Q1FY21. However, owing to recent changes in the FDI policy restricting investment from neighbouring countries in Indian Entities (specifically in Real Estate Sector), the transaction was delayed. Upon receipt of necessary clarification from the Government of India, the repayment of balance business advance and equity infusion would be completed. Accordingly, to repay the bullet repayment due in June 2020, KOBPL has availed an unsecured loan of Rs.140 crore from HSBC Bank (against off-shore security extended by Blackstone Group). HSBC loan is to be repaid in a single instalment in December 2020. Consequently, receipt of balance business advances from ICL along with envisaged equity infusion in a timely manner would remain a key rating monitorable.

Liquidity: Adequate
The liquidity position of KOBPL remains adequate marked by free cash and bank balance (including liquid investments) of Rs.23.08 crore as on June 30, 2020. Furthermore, DSRA of Rs.17.75 crore, equivalent to one quarter of debt and interest servicing, in the form of liquid investments, is in place. Also, KOBPL receives lease rentals from its tenants by 15th of every month and debt and interest repayment falls due at the end of every month, indicating comfortable cushion period. As against a principal repayment obligation of Rs.9.84 crore in FY21 (excluding bullet repayments of Rs.125 crore and Rs.140 crore to State Bank of India and HSBC Bank respectively, as repayment of same is not linked to leasing operations), KOBPL is envisaged to generate a Gross cash accruals (GCA) of Rs.18-20 crore.
Low counterparty credit risk, established payment track record by tenants in the past, routing of lease rentals through an escrow account, which is sufficient to repay the principal and interest cost and retention of annual surplus in the company ensures cash flow adequacy in the long term and aids liquidity of the company.
Also, the company has not availed moratorium on its debt obligations, as a COVID-19 relief measure, as permitted by RBI, which further underscores its strong liquidity.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
CARE's Policy on Curing period
Rating Methodology for debt backed by Lease Rental Discounting (LRD)
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
KOBPL has constructed an IT business park 'Kosmo One' in Ambattur Industrial Estate, Chennai and is engaged in the activity of leasing of commercial space of the said IT Park. The business park, operational from 2009, is spread across three towers of twelve floors each and has a total leasable area of 1.90 million sq. ft., constructed on 8.84 acres of land.
Kosmo One Business Park was earlier under the ownership and control of Indiabulls group (by way of step down subsidiary of IBREL). The business park was earlier operational under India Land and Properties Limited (ILPL), which was a wholly-owned subsidiary of Indiabulls Infrastructure Limited (IIL), which in turn was a wholly subsidiary of IBREL. During July 2018, Blackstone group entered into an acquisition deal with Indiabulls group to acquire the business park. Pursuant to the acquisition arrangement, ILPL was merged into IIL and subsequently, the name of the merged entity i.e. IIL was changed to KOBPL in July 2020.

Brief Financials:

Brief Financials (Rs. crore)	FY19 (A)	FY20 (P)^
Total Operating Income	82.50	92.78
PBILDT	61.40	69.24
PAT	(25.20)	(18.61)
Overall Gearing (times)	2.38	2.80
Interest Coverage (times)	1.17	1.02

A: Audited; P: Provisional; ^Standalone financials of KOBPL without effecting the merger

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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
Term Loan-Long Term	-	-	February 2034	608.24	CARE BBB+; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	608.24	CARE BBB+; Stable	-	1)CARE BBB+; Stable (24-Jun-19)	-	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Term Loan-Long Term	Simple

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.*

Contact us

Media Contact
Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr. Ujjwal Patel
Contact no. – +91-8511193123
Email ID- ujjwal.patel@careratings.com

Business Development Contact
Mr. Deepak Prajapati
Contact no. – +91-79-4026 5656
Email ID – deepak.prajapati@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.