NDR InvIT Trust

June 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating	0.00	Provisional CARE AAA; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rating in the absence of the pending steps/ documents	**No rating can be assigned**

Rationale and key rating drivers

The issuer rating assigned to NDR InvIT Trust (NDRIT) takes into account the diversified and strategically dispersed portfolio of 20 special purpose vehicles (SPVs) comprising of 33 warehousing assets proposed to be acquired by NDRIT, which are spread across 12 key markets – Chennai, Bengaluru, Kolkata, Mumbai, Delhi, Pune, Coimbatore, Sricity, Bilaspur, Goa and Puducherry. Furthermore, the rating factors in strength from presence of large portfolio of Grade-A assets with completed space of 12.29 million square feet (msf; 11.21 msf constructed and 1.08 msf of open space) along with under construction capacity of 3.26 msf and 1.37 msf identified for future developments. The completed area continues to enjoy near full occupancy for the past two years and healthy weighted average lease expiry (WALE), aided by strong demand from third-party logistics provider (3PL), retails, auto and E-Commerce sectors along with healthy tenant profile precluding counter-partly risks, wherein top 10 clients occupy 50.41% of gross rental value. The strong occupancy coupled with lease agreements with creditworthy clientele imparts strong cash flow visibility for NDRIT. The rating also factors healthy market share of the warehousing portfolio and demonstrated track record of NDRIT's sponsor 'NDR Warehousing Private Limited' in developing, operating and maintaining warehouses.

Post the acquisition of the proposed portfolio, the residual debt at SPV levels shall be refinanced at NDRIT level with external consolidated debt expected to peak for the first round at about ₹400-420 crore at NDRIT level which also includes debt required for under construction and future developments. The capacities under construction and identified for future developments are proposed within the 20 SPVs being acquired. The expansion is proposed to be funded by the existing funds available with the SPVs along with debt to be raised at individual SPV levels, which subsequent to commissioning of the capacities is proposed to be refinanced at the NDRIT level. As per the proposal of the primary issue and stated utilisation of the proceeds provided to CARE Ratings Limited (CARE Ratings) in the medium term, the debt levels are expected to be around less than 2x of external debt/Cash Flow Available for Debt Servicing (CFAD) and 10% of the value of the assets being acquired which imparts a low leverage profile of NDRIT leading to healthy debt coverage metrics. NDRIT shall also maintain debt service reserve account (DSRA) of six months debt servicing requirements for the future consolidated debt in NDRIT.

The above rating strengths are partially tempered by refinancing risk emanating from the proposed debt structure having a bullet repayment with an intent to refinance at the time of maturity. Nevertheless, strong asset quality low leverage of NDRIT mitigates the refinancing risks to a larger extent. Furthermore, the trust is also vulnerable to the vacancy risk with about 38% capacity due for renewal between FY24 and FY26; however, the same is mitigated to an extent with most of the existing rentals being at lower than the market rate resulting in stickiness of the client.

This apart, the facilities under construction shall also emanate moderate project execution risk, however, as majority of the developments are already at an advanced stage, execution risks are significantly minimised. Moreover, NDRIT plans to add only operational assets in the portfolio in the medium term to mitigate construction risk.

Furthermore, the above rating is provisional and will be confirmed once the trust has submitted all the below-mentioned documents and completed the below-mentioned steps to the satisfaction of CARE Ratings:

a. Confirmation of transfer of the identified assets in the trust.
b. Listing of the trust.
c. Receipt of the latest valuation report for the assets.

Rating sensitivities: Factors likely to lead to rating actions

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

Positive factors: Not applicable

Negative factors

- Total external debt/cash flow available for debt servicing exceeding 3x on a sustained basis.
- Significant addition of under-construction portfolio.
- External debt to enterprise value exceeding 30%.
- Significant decline in the occupancy level or collection efficiency resulting strain in liquidity.

Analytical approach: Consolidated
NDRIT proposes to acquire 100% stake in 20 SPVs. The list of entities consolidated is provided in the section of 'Details about the InVIT'.

Outlook: Stable
The Stable outlook factors expected stability in the financial and operational performance of the NDRIT at the back of lower vacancy reflected by healthy WALE aided by strong demand for warehousing space due to economic activity and government policies in India. Furthermore, the outlook factors in the presence of strong Grade-A operating warehousing portfolio with low leverage.

Detailed description of the key rating drivers:

Key strengths

Strategically placed warehousing assets:
The portfolio of warehouses is strategically located near big manufacturing and marketing hubs in India. The operational portfolio is about 67% in southern India, 18% in north India and remaining in west and east. The portfolio comprises 15.20 msf of Grade A warehouses and 1.71 msf of Grade B warehouses, which are operated from six primary markets (Chennai, Bengaluru, Kolkata, Mumbai, Delhi, Pune) having 11.71 msf (69%) of leasable area and balance from secondary markets (Coimbatore, Sricity, Bilaspur, Goa, Puducherry) having 5.20 msf (31%).

Diversified tenant profile with strong cash-flow visibility:
The clientele currently being catered by the portfolio feature from a diversified industry with logistics and 3PL forming 45% of the revenues. Besides the logistics and 3PL, a healthy proportion is also formed by consumer durables, auto and industrials, retail, and E-commerce. Furthermore, about 50% of the revenues are provided by 10 clients, with none of the clients forming more than 10% of the total revenues. Additionally, as about 45% of the revenues are from logistics and 3PL, the revenue profile is inherently diversified for such tenants insulating the cash flows from seasonality to an extent.

The occupancy of the operational portfolio also stood healthy at 96% with healthy WALE as on March 31, 2023, thereby providing strong revenue visibility. The under-construction portfolio has also tied up tenants already in place so the same shall also be cash-flow generating as soon as they are commissioned. The cashflow visibility is also strengthened by the stickiness of tenants backed by built to suit configuration born by the tenants themselves.

Low leverage resulting in strong debt protection metrics:
Post-acquisition of the warehousing portfolio by NDRIT, the primary issue is expected for about ₹750-800 crore, which shall be utilised to reduce the leverage of the portfolio in a manner that overall peak debt for NDRIT as a percentage of the valuation of the assets being acquired shall be at about 10%. A private equity investor 'Investocorp' has already infused about ₹768 crore among few SPVs in the portfolio, which are also proposed to be converted into equity and subsequently exchanged with InvIT units, which has also been instrumental in the debt reduction for the portfolio. At this level of leverage, the debt protection metrics are expected to be strong. Post transfer of the assets and deleveraging of the portfolio, the ratio debt to CFAD is expected to be in the range to be below 2x for the trust. Furthermore, for any increase in the debt levels in the future from the stated levels, it is also proposed that a six months debt servicing obligation DSRA shall also be created for attending to any exigencies.

Strong market presence and established track record of the sponsors:
The portfolio when fully commissioned shall be one of the largest warehousing portfolios in India wherein it is expected to form a significant market share in the industry. Additionally, the sponsors of NDRIT, NDR Warehousing Private Limited (NDRWPL rated 'CARE A; Stable/ CARE A-; Stable', respectively) has more than three decades of experience in the warehousing industry, the sponsor itself is currently managing the portfolio being acquired of which the operational part is already one of the largest warehousing portfolios. Overall, the sponsors have an established track record of operating industrial and logistics parks in India, and the investment manager for NDRIT is also an NDR group entity, viz., NDR InvIT Managers Private Limited, which supports the business risk profile of the portfolio.

Favourable demand outlook for the warehousing industry:
The total warehousing space increased by 12% from 367.8 msf in FY22 to 412 msf in FY23 with overall improvement in the occupancy rate to 12.2% from 15.6% in FY22. Average rent across eight primary markets increased in the range bound of 3%-8% having Bengaluru recording at 8% and Chennai at 3% for FY23.
There has also been sharp increase in the occupancy rates in Bengaluru by 12%, whereas other markets increase in the range bound 3%-4%, thereby overall vacancy reduced to 12.2% for FY23 against 15.60% for FY22.
The increased demand has been backed by increasing consumption rates, Government ambitious growth targets in GDP, with manufacturing sector aiming to contribute 25% share of GDP by 2025, reforms to transform India into a global design and manufacturing hub, National Logistics Policy and the Gati Sakti initiative aiming towards growth of warehousing industry.

Key weaknesses

Moderate vacancy risks and market risks:
The trust is exposed to vacancy risks as for the current tenancy, the cumulative lease expiry profile indicates about 37% of the leases due to for renewal between FY24 and FY26. Additionally, warehousing leasing rates are subject to demand-supply metrics and are determined by the market which also exposes the trust to market risk. In order to ensure stable cashflows, the sponsors and the asset managers are required to ensure time-bound renewal of the leases and at appropriate rates. Nevertheless, the group's experience and favourable industry outlook is expected to support the cash flow stability. CARE Ratings shall continue to closely monitor the occupancy profile and rental rates operated by the company and its impact on the leverage profile.

Refinancing risks:
NDRIT proposes to raise a 10-year capital market instrument having a bullet repayment at the end of the tenure for refinancing the loans at SPV levels. With the instrument having a bullet repayment, the NDRIT proposes to have it refinanced again at the time of redemption, which exposes it to the refinancing risk. However, attractive asset quality, past track record of regular renewal of lease and low leverage mitigate the refinancing risk to an extent.

Liquidity: Strong
The Trust at a consolidated level is projected to generate strong cashflows on the back of adequate occupancy in the warehouses and comfortable rental rates being charged by the tenants. Furthermore, with the low leverage of the InvIT and proposal of six-month DSRA for any increase in consolidated indebtedness than the proposed levels also renders strong liquidity to the InvIT.

Covenants
Not applicable

Environment, social, and governance (ESG) risks:
The factors of ESG affecting the sector are the environmental aspects such as large land requirement which may need cutting of trees; the social aspects like community impact and accessibility to markets and governance aspects such as stakeholder engagement, supply chain management, and business ethics. CARE Ratings expects NDRIT's commitment to ESG will support its credit profile. Currently, NDRIT does not have an operational track record to review their ESG profile; however, the highlights of the impact of NDR Group's ESG initiatives are as follows:

Environment:

- Provided standing seam roofing systems and lighting systems within warehouses allowing natural lighting, thereby reducing dependence on conventional energy systems. Furthermore, solar panels installed in some of the warehouses.
- Limited the usage of ground water by installing water harvesting facilities in some of the warehouses. Entity also recycles water at newer locations through rainwater harvesting chamber.
- Tenants as part of this sustainability journey by encouraging waste segregation management and recycling at all locations.
- The group is also working towards planting various saplings.

Social:

- The company strives to create an environment that attracts and retains work force at all locations for ensuring a long-term effective operation for the tenants.

- Carry out periodic training for staff and on-site employees on health and safety measures as well as hazard prevention protocols.
- Through the NDR Group's CSR initiatives, the group has contributed to various programmes for social and inclusive development.

Governance:

- The group has adopted high standards of corporate governance including, but not limited to, 50% independent board.
- The group has a whistle blower policy and redressal mechanism for employee grievances.

Applicable criteria

Consolidation
Financial Ratios – Non financial Sector
Infrastructure Investment Trusts (InvITs)
Issuer Rating
Liquidity Analysis of Non-financial sector entities
Policy on default recognition
Policy on Withdrawal of Ratings
Rating Outlook and Credit Watch
Service Sector Companies
Assignment of Provisional Rating

Validity of the Provisional Rating:
The provisional rating shall be converted into a final rating after receipt of the above-mentioned transaction documents duly executed/ completion of the above-mentioned steps within 90 days from the date of issuance of the instrument. An extension of 90 days may be granted on a case-to-case basis in line with CARE Ratings' Policy on Assignment of Provisional Ratings.

Risks associated with provisional nature of credit rating:
When a rating is assigned pending execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of the critical documents to the satisfaction of CARE Ratings, the final rating is assigned by CARE Ratings. In absence of receipt of documents/ completion of steps or where such documents deviate significantly from that considered by CARE Ratings, the provisional rating will be reviewed in line with the Policy on Assignment of Provisional Ratings.

Details about the REIT/ InvIT:

Details of assets proposed to be held by InvIT	The following assets are proposed to be held by InvIT: • NASDA Infra Private Limited • Varama Sir Logistic and Infrastructure Pvt Ltd • Sri Amruthalingeswara Warehousing LLP • Svahgraha Constructions and Holdings Private Limited • Forefront Logistics Private Limited • NDR Vanshil Warehousing Private Limited • Valiant Amrut India Infra LLP • Seahorse Distribution and Freight Services Private Ltd • Kautilya Warehousing Private Limited • NDR Distribution Centers Private Limited • LSA Warehousing Solutions Private Limited • NDR Goa Space Private Limited • Broadview Constructions and Holdings Private Limited • NDR Factor Private Limited • Fabio Beverages Private Limited • NDR Plantation Private Limited • NDR Safestore LLP • NDR Store House Private Limited • NDR Bhadra Estates LLP • NDR AVG Business Park Private Limited
Proposed capital structure	Peak debt/ Enterprise value at about 10% for the first round of assets to be added
Undertaking taken by CARE Ratings from the sponsor stating that the key assumptions (relating to the assets, capital structure, etc.) are in consonance with the details filed by the sponsor with SEBI	Yes

Rating by CARE Ratings is based on a declaration from the issuer that similar changes have been made in the filing with SEBI	Yes

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Services	Logistics Solution Provider

NDRIT has been settled by the Sponsor (NDR Warehousing Private Limited, rated 'CARE A; Stable/CARE A-; Stable' as of July 2022), as a contributory, determinate and irrevocable trust under the provisions of the Trusts Act in Mumbai, India pursuant to the Trust Deed. NDR InvIT Trust has been registered with SEBI as an infrastructure investment trust under the InvIT Regulations on June 5, 2023. NDRIT proposes to acquire a portfolio of 20 SPVs operating 33 warehouses in India.

Brief financials: Not applicable; the trust is yet to acquire its assets and yet to be listed.

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Issuer Rating-Issuer Ratings	NA	NA	NA	NA	0.00	Provisional CARE AAA; Stable

NA: Not applicable

Annexure-2: Rating history for the 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 2023-2024	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
1	Issuer Rating-Issuer Ratings	Issuer rat	0.00	Provisional CARE AAA; Stable				

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Issuer Rating-Issuer Ratings	Simple

Annexure-5: Lender details- Not applicable for issuer ratings

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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