June 28, 2024

VITP Private Limited: Rating reaffirmed for non-convertible debentures; rating assigned for term loan

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures (NCD)	330.00	330.00	[ICRA]BBB (Stable); reaffirmed
Long-term – Fund-based – Term loan	-	1294.00	[ICRA]A- (Stable); assigned
Total	**330.00**	**1624.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating of [ICRA]A- (Stable) to the term loan of VITP Private Limited (VITP) factors in its strong promoter profile with track record of developing and managing commercial real estate and data centre (DC) projects. VITP is a wholly-owned step-down subsidiary of the Singapore-based CapitaLand India Trust (CLINT). CLINT is held by the CapitaLand Group (24.3% as on March 31, 2024), a Temasek Holdings (Private) Limited[1] entity, which has global experience in managing DCs with 26 facilities (operational and under-construction) in 10 cities across the world with a total installed capacity of ~500 MW. In addition, CLINT owns high quality commercial office space in India with leasable area of ~21 million square feet (msf) spread across Bangalore, Chennai, Hyderabad, Mumbai and Pune at a healthy consolidated occupancy of 91% as on March 31, 2024. CLINT also has significant development pipeline of DCs with estimated capacity of ~115 MW across four cities in India (in different special purpose vehicles), which will become operational in multiple phases over the medium term.

At present, VITP is developing a DC in International Tech Park Hyderabad (ITPH) with a capacity of 25 MW at a total project cost of ~Rs. 1,943 crore[2] in a phased manner, which is estimated to be funded by a debt-to-equity ratio of 67:33. Around Rs. 300 crore of equity has been infused and the balance equity is expected to be infused as per the construction progress through surplus cash flows from the operational office assets under VITP. Further, the debt required for the DC project has been tied-up. The DC project is likely to start operations from FY2027 in a phased manner. The rating considers the strong long-term demand prospects for DCs, backed by digital data explosion in India and favourable regulatory support.

These strengths are, however, partially offset by exposure to execution risk as it is currently in the nascent stages of construction. The DC project remains exposed to market risks, given that there are no pre-leasing tie-ups as on date. Further, the estimated capital cost per MW is relatively high compared to the benchmark cost due to higher core and shell costs (increase in excavation cost with presence of rocky terrain, greater floor loading capacity and higher floor-to-ceiling height). Consequently, the break-even occupancy remains high for the DC project. Any delay in tying-up of leases at adequate rates would adversely impact the ability to refinance the construction debt in a timely manner and would remain the key monitorable. However, comfort can be drawn from experience of the CapitaLand Group in dealing with hyperscalers and tenants with large DC space requirements globally. The company also faces stiff competition from large DC additions from established players. The competition is likely to further intensify with the entry of new players in the segment.

[1]*Temasek Holding (Private) Limited, which is 100% owned by Government of Singapore through Minister of Finance, has deemed interest of ~52% in CapitaLand Investments Limited as on December 31, 2023.*

[2] *Total project cost includes hard cost, land & approval cost and interest during construction.*

The rating reaffirmation of [ICRA]BBB (Stable) for NCDs of Rs. 330 crore factors in the improvement in occupancy to 97.6% as of March 2024 (compared to 82% of August 2023), diversified and strong tenant profile, along with the favourable location of office assets having a total leasable area of 4.15 msf in Hyderabad and Pune. Backed by healthy occupancy and minimal debt obligations, the company’s debt protection metrics are expected to remain comfortable. VITP plans redevelop the Orion building in ITPH from the existing leasable area of 0.2 msf to ~0.9 msf at an estimated cost of Rs. 400-450 crore in the medium term, which will be funded through internal accruals. The rating, however, remains constrained by the exposure to refinancing risk associated with the bullet repayment for the NCDs. Nonetheless, this risk is partly mitigated by the long tenure of the NCDs (maturing in FY2031). The interest on the rated NCDs for the period FY2024 to FY2026 is payable in September 2027 and payable annually on March 31 of every financial year from FY2027 onwards, subject to surplus cash flow availability with the company.

The Stable outlook on the long-term rating reflects ICRA’s expectation that the company will be able to achieve adequate leasing progress in DC project before the bullet repayment, benefitting from the healthy demand prospects for the sector and strong sponsor profile, which is expected to provide operational and financial support.

Key rating drivers and their description

Credit strengths

Strong sponsor profile and experience of Capitaland Group in commercial real estate and DC segment – VITP is a wholly-owned step-down subsidiary of the Singapore-based CapitaLand India Trust (CLINT). CLINT is held by the CapitaLand Group (24.3% as on March 31, 2024), a Temasek Holdings (Private) Limited entity, which has global experience in managing DCs with 26 facilities (operational and under-construction) in 10 cities across the world and a total installed capacity of ~500 MW. In addition, CLINT owns high quality commercial office space in India with leasable area of ~21 msf spread across Bangalore, Chennai, Hyderabad, Mumbai and Pune at a healthy consolidated occupancy of 91% as on March 31, 2024. CLINT also has significant development pipeline of DCs with estimated capacity of ~115 MW across four cities in India (in different special purpose vehicles), which will be become operational in multiple phases over the medium term.

Low funding risk for DC project – At present, VITP is developing a DC, in ITPH, with a capacity of 25 MW at a total project cost of ~Rs. 1,943 crore in a phased manner, which is estimated to be funded through debt-to-equity ratio of 67:33. Around Rs. 300 crore of equity has been infused and the balance equity is expected to be infused as per the construction progress through surplus cash flows from the operational office assets under VITP. Further, the debt required for DC project has been tied-up with a six-year loan that has bullet repayment at the end of the tenure. The DC project is likely to start operations from FY2027 in a phased manner.

Digitisation and favourable regulations support long-term prospects of data centres – Data localisation and data explosion are paving the way for DC revolution in India. Digitisation drivers like adoption of new technologies (Cloud, IoT, generative AI, Big Data and 5G rollout), increase in digital penetration (internet usage, mobile penetration), e-commerce, Government focus on digital infrastructure and favourable regulatory policies like Digital Data Protection Bill, infrastructure status to data centres, special incentives from Central and state governments are expected to boost DC investments in the country and demand for the sector.

Healthy occupancy of office portfolio with strong tenant profile – VITP has total leasable area of 4.15 msf under ITPH (2.65 msf) and aVance Pune (1.50 msf) favourably located at Hitech City, Hyderabad and Hinjewadi, Pune, respectively, and have consolidated healthy occupancy of 97.6% as of March 2024. It has strong tenant profile with reputed multinational companies such as FY, Cigniti Technologies Ltd, TCS, LTI Mindtree, Accenture, Dell, etc. Backed by healthy occupancy and minimal debt obligations, the company’s debt protection metrics are expected to remain comfortable.

Credit challenges

Exposure to execution and market risks for datacentre project – The company is exposed to execution risk associated with the large, planned re-development of the Mariner building into a DC at ITPH as it is currently in the nascent stages of construction. The project remains exposed to market risks, as there are no pre-leasing tie-ups as on date. Any delay in tying-up of leases at adequate rates would adversely impact the ability to refinance the construction debt in a timely manner and would remain key monitorable.

High capital cost and break-even occupancy – The estimated capital cost per MW is relatively high compared to the benchmark cost due to higher core and shell costs (increase in excavation cost with presence of rocky terrain, greater floor loading capacity and higher floor-to-ceiling height). Consequently, the break-even occupancy remains high for the DC project. However, comfort can be drawn from the experience of the CapitaLand Group in dealing with hyperscalers and tenants with large DC space requirements globally. The company also faces stiff competition from large DC additions from established players. The competition is likely to further intensify with the entry of new players in the segment.

Exposure to refinancing risk for the rated NCDs – The company is exposed to refinancing risk associated with the bullet repayment for the NCDs. Nonetheless, this risk is partly mitigated by the long tenure of the NCDs (maturing in FY2031). The interest on the rated NCDs for the period FY2024 to FY2026 is payable in September 2027 and payable annually on March 31 of every financial year from FY2028 onwards, subject to surplus cash flow availability with the company.

Liquidity position: Adequate

The company's liquidity is expected to remain adequate. Around Rs. 200-crore NCDs are due for repayment in December 2024, which can be repaid comfortably through its estimated cash flow from operations. Post this, it does not have any principal debt obligation till FY2030. Notwithstanding the healthy cash flow from operations, its capex outflows are likely to be substantial in the near to medium term. ICRA expects VITP to receive adequate funding support from the CapitaLand Group towards its ongoing capital expenditure programme if required. It had free cash and liquid investments of Rs. 27.4 crore as on March 31, 2024.

Rating sensitivities

Positive factors – The rating of BLR instrument could be upgraded if there is significant ramp-up of leasing for data center project at adequate rates providing visibility on timely refinancing of construction debt. Specific credit metrics that could lead to a rating upgrade include 80% leasing for DC project. The upgrade is unlikely for rated NCDs given the characteristics of the debt instrument.

Negative factors – Negative pressure on the BLR rating could arise if there are material cost or time overruns in DC project completion or considerable delay in leasing in DC project impacting the company's ability to refinance the construction debt. Further, material decline in occupancy for office portfolio resulting in weakening of debt protection metrics and liquidity position, on a sustained basis will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

VITP is wholly owned by Ascendas Property Fund India Pte. Ltd., a Singapore-based company, which is a 100% subsidiary of CLINT, a Singapore-listed business trust that owns office and industrial parks in various cities of India. VITP is in the business of developing, operating, and maintaining office parks. At present, VITP owns one IT park in Hitec City, Hyderabad, named ITPH, with a leasable area of 2.65 msf and another IT SEZ Park in Hinjewadi, Pune, named aVance Pune, with a leasable area of 1.47 msf. The company is also developing a DC project under VITP with IT load of 25 MW at an estimated total project cost of ~Rs. 1,943 crore.

Key financial indicators

	FY2023	FY2024
	Audited	Audited
Operating income	224.4	307.7
PAT	46.6	94.8
OPBDIT/OI	78.2%	77.5%
PAT/OI	20.8%	30.8%
Total outside liabilities/Tangible net worth (times)	4.0	3.1
Total debt/OPBDIT (times)	6.8	4.9
Interest coverage (times)	1.1	1.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					June 28, 2024	Oct 30, 2023	Dec 23, 2022	Dec 24, 2021
1	NCD	Long term	330.0	330.0	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	NCD	Long term	-	-	-	[ICRA]BBB (Stable); Withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Term loans	Long term	1294.0	-	[ICRA]A- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	Very Simple
Long-term – Fund-based – Term loans	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE743G08100	**NCD**	Feb 05, 2021	12%	Feb 05, 2031	330.00	[ICRA]BBB (Stable)
NA	**Term loan**	FY2025	-	FY2031	1294.00	[ICRA]A- (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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