CRISIL Ratings

Rating Rationale

September 06, 2024 | Mumbai

Innovent spaces private limited

Rating upgraded to 'CRISIL A+/Stable'; Rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.357.96 Crore (Enhanced from Rs.157.96 Crore)**
Long Term Rating	**CRISIL A+/Stable (Upgraded from 'CRISIL A/Positive')**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the long term bank facilities of Innovent Spaces Private Limited (ISPL) to **'CRISIL A+/Stable'** from 'CRISIL A/Positive'.

The rating upgrade reflects a sustained improvement in business performance as evidenced by a healthy CAGR (compounded annual growth rate) of 33.8 per cent over the last 3 years through fiscal 2024. This was driven by a ~0.7 million square feet addition in rent yielding area (RYA) in last fiscal; Revenue and RYA witnessed 42% and 19% growth respectively in fiscal 2024, while the occupancy levels remained comfortable at over 80 per cent. Such healthy occupancy levels would be sustained over the medium term supporting the operating performance. Moreover, increasing RYA, and higher value add revenues would further support the business profile.

A healthy business performance also supports a strong financial profile with healthy interest coverage and capital structure. Interest coverage stood at 9.73 times for fiscal 2024 and would be sustained at over 7-10 times over the medium term. Moreover, the TOLTNW will be sustained at 2-2.1 times over the medium term.

The rating continues to reflect ISPL's healthy business risk profile, driven by its strong market position in the flexible office space segment, established client base across geographies, diversified revenue streams and steadily increasing area under management with healthy occupancy levels. The rating also benefits from healthy operating efficiency on account of efficient rent collection and prudent cost optimization measures. Further, rating also takes into consideration the company's healthy financial risk profile, supported by strong networth base, healthy DSCR and moderate dependence on external debt. These strengths are partially offset by susceptibility to volatility in occupancy levels, amidst exposure to cyclicality in the real estate sector and moderate track record of operations.

Key Rating Drivers & Detailed Description

Strengths:

- **Strong market position in the flexible workspace segment:** ISPL is one of the largest flexible workspace platform in India with area under management of ~5.5 million sq. ft in 13 cities with over 500 customers. ISPL offers flexibility with minimal capex and quick turnaround (typically under 45 days) to clients compared to 6-9 months for traditional office spaces. It has rapidly and profitably scaled up its operations over the last 5-6 fiscals while establishing strong client base with focus on mid to large enterprise clients. Strong and growing customer base, along with unique product offering, services and facilities are expected to support healthy growth over the medium term. Diversified revenue streams with rental income contributing 75-80% while 20-25% comes from other support and value-added services. Operating margins have shown steady improvement from 12% to 19.9% in the last 3 fiscals (19.9% in fiscal 2024) while centre level margin sustained in the range of 25-30%. CRISIL Ratings expects operating margin to remain in the range of 18-20% over the medium term, backed by improvement in occupancy levels in the matured and newly launched spaces scaling up its occupancy levels within a period of 12 months. However, sustenance of healthy occupancy levels and operating margins is a key monitorable.

- **Diversified client base and healthy occupancy levels:** Operations are spread across 13 cities with over 500 clients, which provides healthy revenue diversity and minimizes business risk. Client mix of ISPL is more around the large and medium enterprises and MNC customers rather than co-working customers. Moreover, it caters to mid-size and enterprise clients only with a lock-in period of at least 2-3 years for most clients, which ensures cash flow stability. ISPL enjoys over 80-85% renewal rates and an increasing percentage of multi city deals. ISPL has low to moderate client concentration risk as top 5 tenants contributing only 15% to area and 14% to revenue. Company is now focusing to increase its presence across Tier II cities such as Coimbatore, Madurai, Jaipur and Lucknow.

  ISPL's churn rate is relatively lower while several of its existing clients have increased their engagement levels with ISPL by taking more space in the same premises or across locations. The rating also factors in the well-secured lease structure, with lock-in period of 2-3 years and an in-built revenue escalation clause of 5-10% for most tenants.

- **Healthy financial risk profile:** Financial risk profile is supported by healthy capital structure marked by gearing of 0.48 time as on March 31, 2024, and expected to remain at similar levels over the medium term. Equity infusion of Rs. 225 crore from promoters and existing investors during fiscal 2022 and 2023 strengthened the networth position and reduced reliance on external debt. Debt to net rentals is at a healthy level of 0.48 time for FY24. Comfortable debt protection metrics marked by interest coverage of 9.7 times in fiscal 2024. Average (year 4 & beyond) and minimum adjusted DSCR (adjusted for lease liability) are currently healthy at 1.8 and 1.25 times respectively. Financial risk profile expected to sustain over medium term despite debt funded capital expenditure backed by healthy networth base, moderate leverage levels and comfortable accruals. Movement in DSCR and leverage levels shall remain a key monitorable

Weaknesses:

- **Exposure to cyclicality in the real estate sector:** Rental collection (key source of revenue) is susceptible to economic downturns, which constrain the tenant's business risk profile and, therefore, occupancy and rental rates. The ISPL's lease agreements with landlords are long term (typically of 10-20 years) with a lock-in period of 3-4 years, while contract with clients are for 3-5 years with a ~3 years lock in period. The clients could potentially move out on expiry of the contract, which can adversely affect its lease rental income during periods of economic downturns. However, this risk is mitigated by the competitive rates along with value added services offered by the company, security deposits from clients and the lock-in period in the contract with tenants

- **Susceptibility to volatility in interest rates and occupancy:** Cash inflow remains susceptible to volatility in occupancy levels or realizations (derived from rentals per sq. ft), while cash outflow is relatively fixed, except for fluctuations in interest rates (as it is floating). Emergence of competing facilities in the vicinity could also cannibalize tenants or rental rates. However, Company is able to pass on negative economic impact from low occupancy towards discounts from landlords and operational cost savings (like electricity, housekeeping etc). Although the cash flow will be able to absorb the impact of fluctuations in interest rates and occupancy partially, these remain rating sensitivity factors.

Liquidity: Strong

The average adjusted debt service coverage ratio (DSCR) is expected to be around 1.62 times with a minimum of 1.25 times throughout loan tenor. Liquidity is further supported by a debt service reserve account (DSRA) covering two months of debt obligation. Bank limits was utilized moderately at an average of 69% during the last 12 months through June 2024. The company also has adequate free cash balance of Rs. 3-5 crore at any point of time. ISPL has escrow mechanism in place with the bank, wherein rent from customers are deposited. This provides additional comfort to the lender as debt repayment is backed by stable cash flow. Support from promoters are also available incase of any exigencies.

Outlook: Stable

CRISIL Ratings believes the credit profile of ISPL will benefit, over the medium term, from its established market position yielding steady cash flow from lease rentals and comfortable financial risk profile.

Rating sensitivity factors

Upward factors:

- Better than expected improvement in operational performance metrics coupled with sustenance of risk mitigating practices and progressive reduction in concentration in any one of the micro markets.
- Sustained financial risk profile; with moderate reliance on external debt for expansion and average (year 4 & beyond) & minimum adjusted DSCR sustained above 2.1 & 1.5 times respectively.

Downward factors:

- Significantly weaker than expected operational performance metrics with occupancy levels sustained below 75% or material deviations from risk mitigating practices.
- Significantly higher than expected reliance on external debt to fund expansions or average (year 4 & beyond) & minimum adjusted DSCR to below 1.65 & 1.1 times respectively on a sustainable basis.

About the Company

ISPL was incorporated in 2015. The company is engaged in providing office space, catering to established enterprises and start-ups. It operated under brand name of "IndiQube" offers fully serviced, tech-enabled co-working and managed office spaces at value pricing and at zero capex. It currently operates around 6.5 million sft area with more than 500+ clients across 13 cities in the country. ISPL has its headquarters in Bengaluru and promoted by Mr. Rishi Das, Ms. Meghna Agarwal and Mr. Anshuman Das.

Key Financial Indicators

As on / for the period ended March 31	Unit	2024*	2023
Operating income	Rs crore	841.23	592.47
Reported profit after tax	Rs crore	67.73	20.63
PAT margins	%	8.05	3.48
Adjusted Debt/Adjusted Net worth	Times	0.48	0.46
Interest coverage	Times	9.73	7.74

**Provisional*

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Working Capital Facility	NA	NA	NA	28	NA	CRISIL A+/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	200	NA	CRISIL A+/Stable
NA	Term Loan	NA	NA	01-Jun-28	69.96	NA	CRISIL A+/Stable
NA	Term Loan	NA	NA	01-Jun-28	60	NA	CRISIL A+/Stable

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	357.96	CRISIL A+/Stable		--	08-11-23	CRISIL A/Positive		--		--	--
			--		--	07-11-23	CRISIL A/Positive		--		--	--
			--		--	21-03-23	CRISIL A/Stable		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	200	Not Applicable	CRISIL A+/Stable
Term Loan	69.96	Axis Bank Limited	CRISIL A+/Stable
Term Loan	60	Axis Bank Limited	CRISIL A+/Stable
Working Capital Facility	28	Axis Bank Limited	CRISIL A+/Stable

Criteria Details

Links to related criteria
Rating criteria for manufaturing and service sector companies
CRISILs Approach to Financial Ratios

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