

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 network base, healthy DSCR and moderate dependence on external debt. These strengths are partially offset by susceptibility to volatility in occupancy levels, amidst exposure to cyclicity 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 cyclicity 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.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

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

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	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/Positive		--		--	--

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 manufacturing and service sector companies
CRISILs Approach to Financial Ratios

Media Relations	Analytical Contacts	Customer Service Helpdesk
Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 Prakruti.Jani@crisil.com	Jayashree Nandakumar Director CRISIL Ratings Limited B:+91 44 6656 3100 jayashree.nandakumar@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com
Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com	Athul Unnikrishnan Sreelatha Associate Director CRISIL Ratings Limited B:+91 22 4040 5800 athul.sreelatha@crisil.com	For Analytical queries: ratingsinvestordesk@crisil.com
	ACHUTH SEKHAR Senior Rating Analyst CRISIL Ratings Limited B:+91 22 4040 5800 ACHUTH.SEKHAR@crisil.com	

Note for Media:

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper/magazine/agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings. However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites and portals.

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

CRISIL PRIVACY NOTICE

CRISIL respects your privacy. We may use your contact information, such as your name, address and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer is part of and applies to each credit rating report and/or credit rating rationale ('report') provided by CRISIL Ratings Limited ('CRISIL Ratings'). For the avoidance of doubt, the term 'report' includes the information, ratings and other content forming part of the report. The report is intended for use only within the jurisdiction of India. This report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the report is to be construed as CRISIL Ratings provision or intention to provide any services in jurisdictions where CRISIL Ratings does not have the necessary licenses and/or registration to carry out its business activities. Access or use of this report does not create a client relationship between CRISIL Ratings and the user.

The report is a statement of opinion as on the date it is expressed, and it is not intended to and does not constitute investment advice within meaning of any laws or regulations (including US laws and regulations). The report is not an offer to sell or an offer to purchase or subscribe to any investment in any securities, instruments, facilities or solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way.

CRISIL Ratings and its associates do not act as a fiduciary. The report is based on the information believed to be reliable as of the date it is published, CRISIL Ratings does not perform an audit or undertake due diligence or independent verification of any information it receives and/or relies on for preparation of the report. THE REPORT IS PROVIDED ON "AS IS" BASIS. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAWS, CRISIL RATINGS DISCLAIMS WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR OTHER WARRANTIES OR CONDITIONS, INCLUDING WARRANTIES OF MERCHANTABILITY, ACCURACY, COMPLETENESS, ERROR-

FREE, NON-INFRINGEMENT, NON-INTERRUPTION, SATISFACTORY QUALITY, FITNESS FOR A PARTICULAR PURPOSE OR INTENDED USAGE. In no event shall CRISIL Ratings, its associates, third-party providers, as well as their directors, officers, shareholders, employees or agents be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

The report is confidential information of CRISIL Ratings and CRISIL Ratings reserves all rights, titles and interest in the rating report. The report shall not be altered, disseminated, distributed, redistributed, licensed, sub-licensed, sold, assigned or published any content thereof or offer access to any third party without prior written consent of CRISIL Ratings.

CRISIL Ratings or its associates may have other commercial transactions with the entity to which the report pertains or its associates. Ratings are subject to revision or withdrawal at any time by CRISIL Ratings. CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors.

CRISIL Ratings has in place a ratings code of conduct and policies for managing conflict of interest. For more detail, please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>. Public ratings and analysis by CRISIL Ratings, as are required to be disclosed under the Securities and Exchange Board of India regulations (and other applicable regulations, if any), are made available on its websites, www.crisilratings.com and <https://www.ratingsanalytica.com> (free of charge). CRISIL Ratings shall not have the obligation to update the information in the CRISIL Ratings report following its publication although CRISIL Ratings may disseminate its opinion and/or analysis. Reports with more detail and additional information may be available for subscription at a fee. Rating criteria by CRISIL Ratings are available on the CRISIL Ratings website, www.crisilratings.com. For the latest rating information on any company rated by CRISIL Ratings, you may contact the CRISIL Ratings desk at crisilratingdesk@crisil.com, or at (0091) 1800 267 1301.

CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: <https://www.crisilratings.com/en/home/our-business/ratings/credit-ratings-scale.html>