RATING ACTION COMMENTARY

Fitch Assigns CapitaLand India Trust First-Time 'BBB-' Rating; Outlook Stable

Sun 07 Jul, 2024 - 19:22 ET

Fitch Ratings - Singapore/Mumbai - 07 Jul 2024: Fitch Ratings has assigned Singapore-listed CapitaLand India Trust (CLINT) a first-time Long-Term Issuer Default Rating (IDR) of 'BBB-'. The Outlook is Stable.

The rating is underpinned by the trust's high-quality portfolio of Grade A offices in India, which we expect will sustain high occupancy rates and positive rental reversions amid strong demand for IT outsourcing services. This counterbalances its rising exposure to asset developments and acquisitions. We expect EBITDA net leverage to peak at 8.5x in 2025 before reducing to around 7.0x thereafter.

Our rating case has not factored in any equity raising, as this will be subject to market conditions. Our expected peak EBITDA net leverage is above the level for CLINT's current rating, but we acknowledge that it has a number of levers and leverage could be lower than our forecast. In particular, CLINT has an established record of prudently managing development risks, as well as strong credit- and equity-market access that has allowed it to maintain a healthy capital structure with gearing (debt/total assets) of below 40%.

KEY RATING DRIVERS

High-Quality Office Portfolio: CLINT's property portfolio consists mainly of business parks with Grade A offices in five top-tier cities in India. These properties have higher occupancy rates than the India office market average, as they are located in established demand centres for IT outsourcing services and global capability centres (GCCs) such as Chennai, Hyderabad, Bangalore, Pune and Mumbai. Their rental growth has been strong in the last few years. We believe CLINT is well-positioned to benefit from India's status as a global leader in IT outsourcing services.

Fitch forecasts that CLINT's portfolio will maintain blended occupancy rates of around 90%-92%, driven by mature existing assets in the mid- to high-90s range, even as partly leased new properties are commissioned. We estimate base rental income from existing assets to increase to SGD213 million in 2024 and SGD226 million in 2025, from SGD179 million in 2023, supported by strong demand by IT companies and major financial institutions that is driving a rising number of GCCs.

High Development Exposure: CLINT has a large pipeline of asset development and acquisitions via forward purchases, and will grow its floor area to 30.2 million sq ft by 2030, from 21 million sq ft as of end-March 2024. We forecast capex of SGD515 million in the next three years to develop its data centres (DCs) in Navi Mumbai and Hyderabad, and its MTB6 building in International Tech Park Bangalore. CLINT also has a SGD718 million commitment remaining under its committed forward purchases as of 31 March 2024, which will be acquired in stages, largely during 2024-2030.

Well-Managed Development Risk: The trust's developments are exposed to leasing risk, as they are not pre-committed. CLINT manages this risk by only acquiring assets after they have achieved a minimum occupancy rate. It can acquire the asset at a discount if the occupancy is lower than agreed upon. All acquisitions were previously completed at a minimum 50% occupancy rate, which was then ramped up over 12-to-24 months. We expect execution risk to be manageable, with the support of the experienced asset-management team backed by its sponsor, CapitaLand Investment Limited.

Temporary Increase in Leverage: We expect EBITDA leverage to peak at 8.5x in 2025 before tapering off to around 7.0x as a result of high capex from DC developments and forward purchase commitments in 2024 and 2025. Leverage will improve to below our estimates if the trust raises equity to partially fund capex as planned, but that is subject to market risk. We have factored in potential proceeds in 2024 from the disposal of two of CLINT's mature but smaller non-core assets for capex funding.

CLINT has maintained a gearing ratio of below 40% in the past and has demonstrated an ability to raise equity to fund capex, such as the issuance of SGD150 million of equity from a preferential offering and SGD25 million from a sponsor subscription in 2023 to fund the construction of Block A in its International Tech Park Hyderabad, aVance A1 and Gardencity projects.

Concentrated Property Portfolio: CLINT's portfolio is concentrated, with the top 10 assets comprising more than 93% of asset value and its largest property, International Tech Park Bangalore, accounting for 28% of total assets under management as of end-December

2023. CLINT's 10 largest tenants also accounted for 45% of portfolio base rent. Nevertheless, tenant risk is mitigated by the profile and credit quality of its large multinational clientele. We expect asset concentration to gradually improve as CLINT grows its portfolio through asset development and acquisitions.

Positive DC Sector Trends: We expect CLINT's foray into DC development to improve the portfolio's growth potential and diversification. We expect strong growth in demand for DC space in India, boosted by growth in internet traffic, increased mobile data usage, IT outsourcing, cloud computing and government support. CLINT expects DCs to contribute about 15% of revenue in the medium term. We believe this will mitigate risks of technology obsolescence and the limited, albeit improving, lender and investor appetites for this niche asset class relative to mainstream commercial property.

Partly Unhedged Foreign-Currency Risk: CLINT has some exposure to unhedged foreign-currency risk, as its revenue is generated solely in Indian rupees. The trust's financial policies state that 30%-50% of its debt will be denominated in Singapore dollars, with the balance hedged to rupees. The trust is also increasing its onshore rupee-denominated construction loans to fund its capex. As of end-March 2024, 57.6% of total debt was hedged to rupees.

Manageable Interest-Rate Exposure: We expect CLINT will be able to manage interest-rate risk, supported by a high fixed-rate debt ratio of 71% at end-March 2024 and a well-spread debt maturity profile in the near term. We forecast EBITDA interest cover to stay above 2.0x in the next two years and slowly improve, in line with our assumption that US policy rates will fall to 500bp by end-2024 and 375bp by end-2025, from 550bp at end-2023. CLINT aims to maintain a fixed-debt ratio of at least 65% in the medium term.

DERIVATION SUMMARY

CLINT's rating can be compared with that of Singapore-listed REITs such as Cromwell European Real Estate Investment Trust (CEREIT, BBB-/Stable) and Starhill Global Real Estate Investment Trust (SGREIT, BBB/Stable).

CLINT and CEREIT are rated at the same level. CEREIT's EUR2.4 billion portfolio of 112 assets is more diversified than that of CLINT. CEREIT's strong light industrial, logistics and prime office assets are partially offset by its weaker secondary office assets that are exposed to negative structural trends. This is similar to CLINT's IT business park assets in India, which have strong occupancy rates and high rental reversions. CEREIT is in the process of asset divestment to strengthen its portfolio, with some execution risk.

The two trusts have similar financial profiles, but CLINT has much higher development exposure, resulting in tighter sensitivities than CEREIT.

SGREIT has a stronger business profile than CLINT, supported by its stable cash flow from long-dated master leases and the prime locations of key properties. SGREIT has a weighted-average lease length of 7.9 years, which is much longer than CLINT's 3.4 years. SGREIT's higher occupancy rate and negligible development exposure more than offset its higher asset and tenant concentration risk. As a result, SGREIT is rated one notch higher than CLINT.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

- Revenue of SGD283 million in 2024 and SGD336 million in 2025, with revenue growth driven by improved occupancy rates and positive rental reversions in existing properties, as well as income contributions from new acquisitions and developments.

- EBITDA of SGD199 million in 2024 and SGD237 million in 2025.

- 50% of management fees, paid in units, to be added back to EBITDA due to their non-cash nature

- Development capex and forward purchase commitments of around SGD450 million in 2024 and SGD510 million in 2025.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Positive rating action is unlikely, given CLINT's large development exposure compared to higher-rated peers.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- EBITDA interest coverage below 2.0x for a sustained period

- EBITDA net leverage above 8.0x or loan/value ratio above 50% for a sustained period

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity, Strong Funding Access: CLINT had a reported cash balance of SGD180 million as of end-2023, against Fitch-forecasted negative free cash flow after acquisition and divestments of SGD259 million in 2024 and short-term debt of SGD415 million. SGD250 million of the debt is short-term revolvers. The trust obtained committed five-year term loans of SGD350 million in May 2024 to refinance its outstanding revolvers and upcoming debt maturities. Conversion of revolvers into term loans has also improved its debt maturity profile.

We expect its 2024 liquidity ratio to increase to 1.3x after the repayment of outstanding revolvers, and committed and near-final construction loans. CLINT also has SGD390 million of undrawn uncommitted revolving facilities. We expect it to have sufficient liquidity to fund capex and commitments under its forward purchases in 2024, with additional bank debt and proceeds from asset divestiture. The trust also has healthy capital-market access. Most of its assets are unencumbered, with a strong ratio of unencumbered assets/unsecured debt of 2.0x that further supports access to contingent liquidity.

ISSUER PROFILE

CLINT is a Singapore-listed business trust with an asset base of SGD3.1 billion as of end-March 2024, consisting of real estate used primarily as business space in India. The trust has 10 IT business parks and four industrial and logistics facilities with a total floor area of 21 million sq ft, spread across Bangalore, Chennai, Hyderabad, Pune and Mumbai in India. The trust also has four data centres under development.

DATE OF RELEVANT COMMITTEE

24 June 2024

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING		
CapitaLand India Trust	LT IDR	BBB- Rating Outlook Stable	New Rating

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Rating Criteria (pub. 04 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 22 Jun 2024)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

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