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Research Update:

Indigo Group 'BBB' Ratings Affirmed On Expected Deleveraging After The Parkia Acquisition; Outlook Stable

October 5, 2023

Rating Action Overview

- On July 31, 2023, French car park operator Indigo Group S.A. announced that it had signed an agreement to purchase 100% of pure off-street Spanish car park group Parkia Spanish Holding SLU and its subsidiaries for an enterprise value of about €600 million-€650 million (with €40 million-€45 million of annual EBITDA expected in 2024-2025). Indigo has committed to finance the acquisition with common equity, while Parkia's existing debt, of about €370 million, will remain in place.
- We understand the equity contribution will be temporarily financed with a €284 million equity bridge facility at closing and that Indigo's three shareholders--Crédit Agricole Assurances, Vauban Infrastructure Partners, and MEAG--have firmly committed to repay the equity bridge in the course of 2024.
- The higher debt stemming from Parkia's consolidation is mitigated by our expectations that Indigo will generate stronger-than-anticipated cash flow over 2023-2025, reflecting year-to-date June solid earnings, Parkia's strong portfolio focused on inflation-linked tariffs under long-term concessions, and Indigo's flexible financial policy, which should enable the restoration of rating headroom in the medium term.
- We therefore affirmed our 'BBB' long-term issuer and issue credit ratings on Indigo and its senior unsecured debt.
- The stable outlook reflects our view that Indigo will deleverage after the Parkia acquisition. We base our view on Indigo's commitment to fund the transaction with common equity and to repay the bridge facility shortly after closing, enabling weighted-average funds from operations to debt to recover to 10%-11% and debt to EBITDA to 6.0x-6.5x in 2024-2025 on the back of anticipated revenue growth, cost optimization, and a supportive financial policy.

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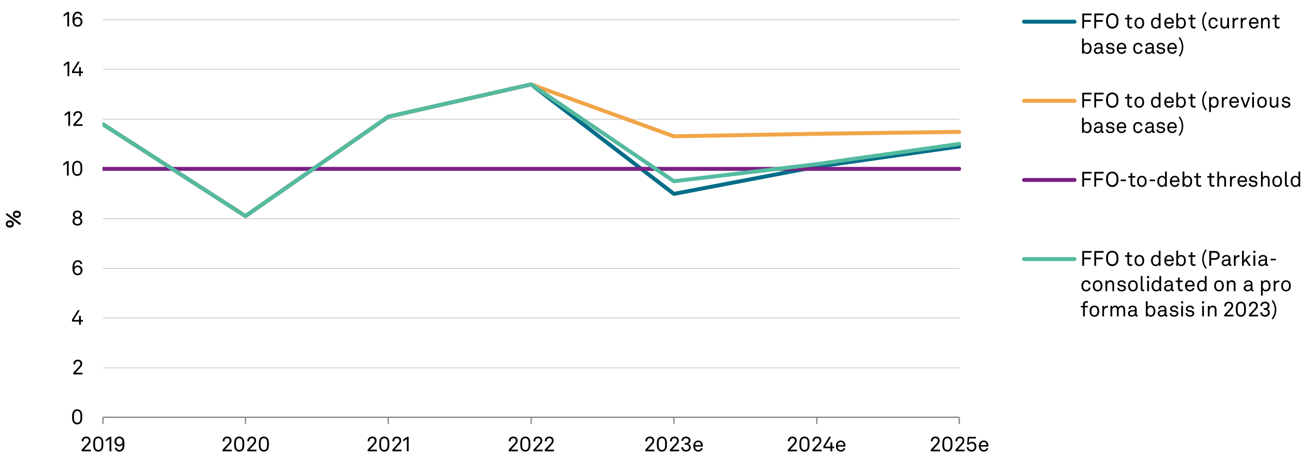
Rating Action Rationale

The affirmation reflects our expectation that Indigo will deleverage after the Parkia acquisition, and the shareholders will inject the common equity shortly after closing to repay the temporary equity bridge facility (€284 million). We view Parkia's acquisition multiple as elevated (enterprise value of €600 million-€650 million for the €40 million-€45 million of yearly EBITDA over 2024-2025). However, Indigo's commitment to fund the acquisition with common equity will help to contain the initial spike in leverage after closing, which we assume will occur on Dec. 1, 2023, and supports the expected pace of leverage reduction from 2024. We view the recourse to an equity bridge facility as credit negative for the group. Nevertheless, the shareholders have committed publicly to fund the acquisition price by equity, and we understand funds are firmly committed to repay the bridge shortly after closing, during 2024. Indigo's three main shareholders are Crédit Agricole Assurances (A-/Stable/--), Vauban Infrastructure Partners and MEAG, owning 49.2%, 34.3%, and 14.9%, respectively, as of June 2023. We view the shareholders as infrastructure-type investors with a long-term investment horizon, and we expect they will maintain a supportive financial policy.

We expect Indigo will continue to adjust capital expenditure (capex) and shareholder returns to recover rating headroom over the medium term. We expect that, following the transaction, Indigo's funds from operations (FFO) to debt will weaken by 1 percentage point on average in 2024-2025, compared with our previous forecast of 11%-12%, after a temporary decrease to around 9% in 2023. This is based on a pro rata calculation accounting for one month of Parkia's revenue and EBITDA. This reflects that Parkia's existing €370 million facility maturing in 2033 will remain in place due to an expensive make-whole clause, adding approximately €21 million of yearly interest costs to Indigo's capital structure. We expect the company will continue to calibrate dividends to support leverage commensurate with the rating, as highlighted by the decision to cut dividends in 2020 and 2021 (representing €160 million-€180 million), when COVID-19-related restrictions materially affected carpark volumes. In our base case, we assume dividends over 2024-2025 will surpass our previous forecasts by €5 million-€15 million, potentially amounting to as high as €150 million per year. This captures our projection that Parkia may contribute an additional €40 million-€45 million of EBITDA in 2024-2025. Furthermore, the company has the flexibility to defer investments to preserve cash in a weaker operating environment, since a significant part of its investment program is uncommitted for 2023-2025, supporting our view of Indigo's credit profile, despite slimmer-than-previously-forecast headroom for underperformance.

Chart 1

The Parkia transaction will dent Indigo's rating headroom over 2024-2025



e--Estimate. Source: S&P Global Ratings.

Stronger-than-anticipated cash flow at Indigo will mitigate the expected increase in leverage. This reflects Indigo's strong performance in the first half of 2023, as well as better-than-anticipated commercial wins--including ZAC Rive Gauche in Paris, which was renewed in 2023--underpinned by a solid renewal rate, which will fuel future cash flow growth. Indigo's reported EBITDA margins stood near 45% in year-to-date June, and we assume margins will improve in the second half of the year, reflecting the summer and Christmas holidays season. In June, volumes on a like-for-like basis in France (60%-65% of Indigo's EBITDA post Parkia) were still slightly below 2019 levels but compensated by tariff increases in line with expectations, supported by largely inflation-linked tariffs in its concession contracts. We view positively that about 95% of Indigo's debt is at a fixed rate (after hedging); this should sustain EBITDA interest coverage above 4.0x, despite the €528.5 million 2.125% bond maturing in 2025, which we assume will be refinanced well ahead of maturity and at a higher rate.

We view the acquisition of Parkia as supportive of Indigo's strong business risk profile. This is notably due to Parkia's focus on stable, long-term concessions benefitting from automatic indexed-linked tariffs and stronger EBITDA margins than Indigo (62% for Parkia compared to 51% for Indigo in 2022). The acquisition of Parkia is in line with Indigo's strategy to focus on concession types of contract in Europe. In fact, Parkia has a solid business model that focuses on ownerships and long-term off-street concession contracts (with a remaining duration of around 38 years), which will reinforce Indigo's earnings stability. The acquisition of Parkia will also decrease Indigo's exposure to soft currencies and lower-margin contracts in the Americas (with Brazil accounting for about 10% of total EBITDA post the Parkia acquisition from 12% currently). Parkia is the fourth-largest car park operator in Spain and a pure off-street operator, with low concentration risk (only five cities include more than three car parks) and a complementary footprint to Indigo's existing carparks in Spain. The transaction would make Indigo the second-largest car park operator in Spain in terms of EBITDA, doubling its market share there. While the acquisition would increase Indigo's scale and market position in the Spanish market, we expect Parkia's contribution to be limited to 9%-10% of Indigo's total EBITDA post acquisition. We continue to view the car parking sector as characterized by material industry competition and exposure to concession maturities, which require operators to replace maturing contracts by continuing investing, as highlighted by the high multiple envisaged for the Parkia acquisition.

Outlook

The stable outlook indicates that we expect Indigo to deleverage after the Parkia acquisition. We base our expectation on Indigo's commitment to fund Parkia's equity value fully with common equity and that the equity bridge will be repaid shortly after Parkia's closing, in 2024. This, alongside expected strong performance (including from the integration of Parkia, as well as further tariff increases), should result in adjusted FFO to debt improving to 10%-11% and debt to EBITDA to 6.0x-6.5x over 2024-2025, following a temporary deterioration this year. In 2023, adjusted FFO to debt may weaken to 9% and debt to EBITDA to around 8x, reflecting our assumption of only one month of EBITDA contribution from Parkia and the timing of the equity injection scheduled in the course of 2024.

Downside scenario

We could lower the rating if, in our view, Indigo is unable to deleverage post the Parkia acquisition, with FFO to debt remaining close to 10% and debt to EBITDA remaining near 6.5x over 2024-2025. This could occur if:

- The €284 million equity bridge is not repaid shortly after Parkia's closing and in any case within 2024.
- The financial policy, notably dividends and capex, does not support a sufficiently clear trajectory of deleveraging post-acquisition.
- Profitability deteriorates due to a failure to achieve forecast growth from the large development capex plan, or a stronger-than-anticipated hit to volumes from higher fuel costs and the weaker macroeconomic environment.
- The group significantly changes its business mix so that exposure to non-infrastructure, such as management contracts and short-term leases, increases to about 30% of EBITDA (from around 89% post Parkia), or its exposure to higher-risk countries increases materially (from a modest 10% of total EBITDA post Parkia).

Upside scenario

We see a positive rating action as unlikely given Indigo's reduced headroom under our updated base case, its high leverage and its large growth capex plan. For us to consider a positive rating action on Indigo, we would need the company to commit to a material reduction in debt to EBITDA, backed by a predictable financial policy, translating in FFO to debt sustainably above 13%.

Company Description

Indigo is a holding company based in France. It manages more than 1.4 million parking spaces in nine countries worldwide, including Canada and Brazil, although France remains the core market, where the group is expected to generate more than 60% of its International Financial Reporting Standards EBITDA in 2023 (pro forma the acquisition of Parkia), followed by 17% in Spain, 10% in Brazil, and 6% in Belgium.

The business model focuses on off-street concession-type parking (particularly in France, Spain, and Belgium) that generates strong profitability and it has an average remaining term of 27.1 years (on a stand-alone basis) while Parkia's concession portfolio has a 38-year EBITDA weighted average remaining life. Indigo enters emerging markets typically via short-term, low-demand-risk contracts that require little investment but also generate low margins.

The company is fully owned by Infra Foch TopCo S.A.S., which is a holding company controlled by Crédit Agricole Assurances through Predica (49.2%), Vauban Infrastructure Partners (34.3%), and MEAG (14.9%), with 1.4% held in treasury shares and the remainder by management.

Our Base-Case Scenario

Assumptions

- French GDP growth of 0.8% in 2023, 0.9% in 2024, and 1.5% in 2025.
- French consumer price index growth of 5.6% in 2023, 2.6% in 2024, and 1.9% in 2025 and 3.5% in 2023, 2.6% in 2024, and 1.5% in 2025 in Spain.
- The consolidation of Parkia from Dec. 1, 2023, (revenues and EBITDA pro-rata consolidation), together with Parkia's €370 million debt consolidation, which will remain in place as part of Indigo's capital structure.
- Revenue growth of 17%-19% in 2023, driven mainly by the full-year contribution of PareBem in Brazil, followed by revenue growth of 15%-17% in 2024 mainly by the full-year contribution of Parkia and 7%-9% thereafter, supported by the contributions of new acquisitions and developments and no large contract renewals.
- EBITDA margins of roughly 46.1% in 2023, from 51.4% in 2022, due to the increased contribution from lower-margin countries, materially higher electricity costs, and the easing of cost-saving benefits as the recovery accelerates. Thereafter, we assume margins of 45%-47%, supported by Parkia's integration, which displays stronger margins than Indigo, reflecting its focus on off-street.
- Capex of about €240 million in 2023 followed by €150 million-€170 million thereafter, reflecting investments in maintenance, renewal, and new developments and limited capex requirements at Parkia's level.
- Annual dividends of about €120 million in 2023, increasing to about €150 million per year over 2024-2025.
- The €284 million equity bridge facility drawn by end-2023 and repaid by a common equity injection after closing, in 2024.
- We analyze Indigo on a consolidated basis with Indigo Infra S.A.S., as core subsidiaries of their

ultimate owner, Infra Foch TopCo. We focus on the consolidated group ratios by adding any additional debt or cash flows at the parent company, Infra Foch TopCo. We do not treat Infra Foch TopCo's convertible bond as debt and Infra Foch TopCo has no external financial debt or other operations at present. We applied a tax consolidation adjustment of €17.9 million in 2022.

Key metrics

Indigo Group S.A.--Forecast summary

Industry sector: Misc. transportation

	--Fiscal year ends Dec. 31--						
(Mil. €)	**2019a**	**2020a**	**2021a**	**2022a**	**2023e**	**2024f**	**2025f**
Revenue	717	527	585	720	848	983	1,057
EBITDA (reported)	301	232	421	372	388	456	481
Plus/(less): Other	43	(5)	(113)	(2)	3	3	3
EBITDA	344	228	308	370	391	459	484
Less: Cash interest paid	(42)	(50)	(48)	(55)	(66)	(116)	(106)
Less: Cash taxes paid	(43)	(2)	(31)	(86)	(45)	(53)	(59)
Plus/(less): Other	--	--	--	47	--	--	--
Funds from operations (FFO)	259	175	229	277	280	290	319
Debt (reported)	2,321	2,220	2,197	2,175	3,417	3,108	2,703
Plus: Lease liabilities debt	180	132	114	130	195	199	203
Plus: Pension and other postretirement debt	15	15	14	13	13	13	13
Less: Accessible cash and liquid Investments	(337)	(206)	(435)	(256)	(542)	(460)	(10)
Plus/(less): Other	13	4	2	3	20	20	20
Debt	2,191	2,165	1,892	2,065	3,103	2,880	2,929
Cash and short-term investments (reported)	352	221	451	272	557	475	25
Adjusted ratios							
Debt/EBITDA (x)	6.4	9.5	6.1	5.6	7.9	6.3	6.1
FFO/debt (%)	11.8	8.1	12.1	13.4	9.0	10.1	10.9

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. *Our estimates for 2023 reflect the consolidation of Parkia from Dec. 1, 2023 (pro rata the consolidation of revenue and EBITDA for one month), Parkia's €370 million legacy debt, and the €284 million bridge facility.

Liquidity

We have reassessed Indigo's liquidity to adequate from strong, reflecting the short-term maturity of the equity bridge facility. This is based on our expectation that liquidity sources for the 12 months started July 1, 2023, will cover uses by more than 1.2x. Our assessment of Indigo's liquidity is supported by its solid relationships with banks, generally prudent risk management, and ability to weather high-impact, low-probability events without the need for refinancing. This is thanks to abundant liquidity and no refinancing needs before April 2025, when its €528.5 million bond expires, with our assumptions that the company will refinance this bond at least one year in advance. Our liquidity sources and uses include Parkia from Dec. 1, 2023.

Principal liquidity sources for the 12 months started July 1, 2023, include:

- Unrestricted cash and cash equivalents of €138 million on June 30, 2023;
- A €300 million undrawn committed revolving credit facility, maturing in July 2028, following the extension granted in July 27, 2023; and
- Cash FFO of €270 million-€280 million.

We expect principal liquidity uses for the same period will include:

- Debt maturities of about €96 million. No material debt maturities at Parkia before 2033, when its facility matures.
- The repayment of the €284 million of equity bridge facility.
- Capex of €200 million, reflecting limited maintenance capex of about €30 million.
- Dividend distributions of about €120 million in 2023 and €150 million in 2024.

Covenants

Indigo's debt is not subject to any financial covenants. The debt at the Brazilian companies in PareBem Group is subject to covenants under its financing agreements, and we assume that the group will continue to maintain adequate headroom under these covenants for the next 12-24 months.

Environmental, Social, And Governance

We see environmental factors as a neutral consideration for our credit analysis. We note that in Paris, the group's largest city by EBITDA contribution, green policies are discouraging on-street parking and restricting access to the city center. However, this risk is mitigated thanks to rebalancing mechanisms in the concession contracts and Indigo's almost full exposure to off-street parking. Also, we note Indigo's October 2021 announcement that it plans to install more than 10,000 chargers for EVs in Europe by 2025 from 5,000 as of June 30, 2023. We note that positively, Parkia's carparks are more located in medium to small cities, which are less subject to low emission zones risk.

Issue Ratings - Subordination Risk Analysis

Capital structure

Indigo's capital structure comprises about €1.9 billion of senior unsecured debt (on a stand-alone basis), including around €133 million of debt at the subsidiaries' level. The €370 million facility at Parkia's level is secured and we add it to our calculation for the priority debt ratio.

Analytical conclusions

The 'BBB' issue rating on Indigo's notes reflects that all the notes are senior unsecured and the amount of debt at the subsidiaries, in addition to existing Parkia's debt is lower than our 50% threshold.

Ratings Score Snapshot

Issuer Credit Rating	BBB/Stable/--
Business risk:	Strong
Country risk	Low
Industry risk	Low
Competitive position	Strong
Financial risk:	Significant
Cash flow/leverage	Significant
Anchor	bbb
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bbb

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Indigo Group's Parkia Acquisition Is Consistent With Its Expansion Strategy While Increasing Leverage, Aug. 2, 2023
- Industry Top Trends Update Europe: Transportation Infrastructure, July 18, 2023
- Research Update: Indigo Group S.A. Upgraded To 'BBB' On Resilient Forecast Earnings And Prudent Financial Policy; Outlook Stable, May 5, 2023

Ratings List

Ratings Affirmed	
Indigo Group S.A.	
Indigo Infra S.A.S.	
Issuer Credit Rating	BBB/Stable/--
Indigo Group S.A.	
Senior Unsecured	BBB

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.