

October 31, 2022

DS-Max Properties Private Limited: Rating reaffirmed at [ICRA]BBB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term-Term Loan	66.00	122.00	[ICRA]BBB+ (Stable); reaffirmed
Long Term – OD	40.00	18.00	
Long-term- BG	11.00	17.60	
Long-term- Unallocated	73.00	32.40	
Total	190.00	190.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to factor in DS-Max Properties Private Limited's (DSM) healthy saleability in its ongoing projects, along with healthy construction progress in its ongoing projects, funded primarily by customer advances with limited debt. The company's receivables from the sold area covers 65% of its pending cost in the ongoing projects and outstanding debt as on March 31, 2022. Besides, the rating continues to derive comfort from DSM's strong track record in real estate development in Bengaluru, its established brand image in the affordable housing segment, along with its asset-light business model.

However, the rating remains challenged by the company's moderate scale of operations and profitability, with presence limited to the affordable housing segment in Bengaluru's real estate market. The rating also considers the cyclical nature inherent in the real estate industry. The rating remains constrained by the moderate execution risk in the real estate segment with a significant pipeline of upcoming projects, and the counterparty credit risk that exists in the construction contract segment along with moderate execution risk since sizeable projects are in the early stages of execution.

The Stable outlook reflects ICRA's expectations that DSM will continue to benefit from the extensive experience of its promoters and its established brand presence in the affordable housing segment.

Key rating drivers and their description

Credit strengths

Extensive experience and established brand image in affordable housing segment – Established in 2007, DSM is involved in real estate development and has completed more than 70 residential projects encompassing over 65 lakh square feet (lak sft) of constructed area primarily in the affordable housing segment in Bengaluru, reflecting its established brand image. Its promoter, Mr. K. V. Satish, has over a decade of experience in the real estate industry and is involved in the sales and marketing of the projects.

Healthy saleability and cash flow adequacy – The company has achieved an overall booking level of 73% in its ongoing projects as on March 31, 2022, with around 54% of the budgeted cost incurred till March 31, 2022. DSM's receivables from the sales cover 65% of the pending cost and outstanding debt as on March 31, 2022, indicating the low funding risk in this segment.

Comfortable leverage – DSM’s debt level increased to Rs 67.0 crore as on March 31, 2022 from Rs 29.0 crore as on March 31, 2021. The increase in debt is due to increase in project debt for the recently launched projects. Its outstanding project debt stood at Rs. 47.0 crore as on March 31, 2022, against Rs. 18.0 crore as on March 31, 2021. Notwithstanding the increase in debt, the company’s leverage continues to remain comfortable net debt stood of Rs 33.0 crore as on March 31, 2022.

Credit challenges

Operations concentrated on affordable housing segment – Notwithstanding its established brand image in Bengaluru’s affordable housing segment, concentration on a single segment limits DSM’s ability to improve its scale of operations and diversify business profile. While the company diversified its operations by entering the construction sector in 2017 for building low-cost residential units under the Government housing projects, significant client-side delays have hampered the execution progress in these contracts.

Execution risk – The company’s construction progress is healthy with 54% of the budgeted project cost incurred as on March 31, 2022. However, with significant scale of projects to be launched in the near to medium term, there is moderate execution risk in the real estate segment. In the construction segment, the execution risk is moderate since the construction contracts have witnessed significant delays in the past and are still in the early stages of execution. In the construction segment, the company also faces counterparty credit risks.

Inherent cyclical risk in real estate sector – The company is exposed to the inherent risks in the real estate sector such as sensitivity to a decline in property prices, slowdown in economy and decrease in housing demand.

Liquidity position: Adequate

The company’s liquidity position is **adequate** with an unencumbered cash and liquid investments of Rs. 34.0 crore as on March 31, 2022 and an undrawn debt of Rs. 112.0 crore. The committed receivable cover 65% over the pending cost and debt outstanding as of March 31, 2022.

Rating sensitivities

Positive factors – ICRA could upgrade the company’s rating if there is a consistent improvement in scale of operations and improvement in profitability with healthy pace of bookings and collections, as well as improved execution of construction contract orders.

Negative factors – ICRA could downgrade the company’s rating if any significant decline in cash flow from operations due to subdued booking levels or material decline in collections leads to weakening of its liquidity position. Specific metrics that may result in a rating downgrade include cash flow adequacy ratio declining below 50% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Real Estate Construction
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of DSM

About the company

Incorporated in 2007, DS-Max Properties Private Limited (DSM) is involved in real estate development with presence mainly in Bangalore real estate market. Over the past ten years, DSM has completed more than 70 projects encompassing more than 65 lakh square feet (lakh sft) of constructed area. Its residential projects include mainly apartments with amenities such as clubhouse, swimming pool and gymnasium. At present, the company is executing 14 projects encompassing ~36.78 lakh sft of super built area (SBA). Besides, it has around 5 upcoming projects of ~10 lakh msf, which are under various stages of approval. The company also has a small portion of revenues derived from construction contracts for building of dwelling units under housing projects for Andhra Pradesh and Karnataka.

Key financial indicators

Consolidated	FY2021	FY2022
Operating Income (Rs. crore)	219.0	250.6
PAT (Rs. crore)	1.8	6.6
OPBDIT/OI (%)	7.6%	10.1%
PAT/OI (%)	0.8%	2.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	2.1
Total Debt/OPBDIT (times)	1.8	2.7
Interest Coverage (times)	3.5	2.6

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	Type	Current Rating (FY2023)			Chronology of Rating History			
			Amount Rated (Rs. crore)	Amount Outstanding # (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					October 31, 2022		Aug 20, 2020	Aug 13, 2020	
1	Term Loans	Long Term	113	47	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Overdraft	Long Term	27	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	-
3	Unallocated Limits	Long Term	32.4	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
4	Bank guarantee	Long Term	17.6	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

as on March 31, 2022;

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term— Term loan	Simple
Long-term— OD	Simple
Long-term – Non-fund based	Very simple

Long-term– Unallocated	Not Applicable
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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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Lender	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2019-FY2023 @	-	FY2024&	9	[ICRA]BBB+(Stable)
NA	Term Loans	FY2022-FY2025 @	-	FY2025&	49	[ICRA]BBB+(Stable)
NA	Term Loans	FY2022-FY2025@	-	FY2025&	30	[ICRA]BBB+(Stable)
NA	Term Loans	FY2022-FY2025@	-	FY2025&	34	[ICRA]BBB+(Stable)
NA	SOD	-	-	-	5	[ICRA]BBB+(Stable)
NA	Bank Guarantee	-	-	-	17.6	[ICRA]BBB+(Stable)
NA	Overdraft	-	-	-	13	[ICRA]BBB+(Stable)
NA	Unallocated Limits	-	-	-	32.4	[ICRA]BBB+(Stable)
	Total				190	

@ Represents loans sanctioned between FY2019 and FY2023

& Represents the farthest maturity date among the various maturity dates for different term loans

Source: the company

[Please click here to view lender-wise facilities rated by ICRA](#)

Annexure-2: 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.

For more information, visit www.icra.in

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Branches



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