

January 27, 2021

Divyasree Tarbus Builders Private Limited: [ICRA]BBB (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	447.40	[ICRA]BBB (Stable); Assigned
Total	447.40	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating favourably factors in the established operational track record of Divyasree Greens, a 0.72 million sq. ft. commercial office building owned by Divyasree Tarbus Builders Private Limited (DTBPL or the company) at Inner Ring Road, Bengaluru. The company has also developed 0.05 million sq. ft. of office space named Divyasree Greens Annexe in the land parcel adjoining Divyasree Greens. The rating also positively factors in the long-term leases signed with Dell for both the buildings, which has been occupying Divyasree Green building since 2003. Lower than market rent rates prevailing currently and investments made by tenants towards fit-outs are expected to mitigate lease non-renewal or vacancy risks to some extent. ICRA notes that the lease rental discounting loans (LRD) loans of DTBPL have an escrow mechanism along with interest service reserve accounts (ISRA) equivalent to two months' interest obligations, which supports the liquidity profile. The rating also draws comfort from the established track of Divyasree Group in the development and management of commercial real-estate assets.

The rating, however, is constrained by single tenant risk with and the consequent exposure to market risk in case of any vacancy / non-renewal of leases. Nonetheless, these risks are partly mitigated by the asset's competitive rental rates, profile of the tenant and the investments made by tenant towards fit outs. The rating is further constrained by modest coverage indicators and moderate leverage levels with Debt to Net Operating Income (NOI) of 6.3 times as on March 2020, thus limiting financial flexibility of the company to some extent. The debt coverage ratios are impacted by the high tax outflows for the company and remain vulnerable to any changes in interest rates and occupancy levels.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that DTBPL will continue to benefit from its long track record of operations and healthy asset profile, which is expected to support stable occupancy and cash flow generation. While DTBPL's billing and collections from tenants have not been materially impacted by Covid-19 in Q1FY2021, any adverse impact of the pandemic on the overall office leasing market and consequent pressures on the operating metrics of DTBPL will be a key monitorable.

Key rating drivers and their description

Credit strengths

Favourable asset profile – DTBPL has developed a built-to-suit campus for Dell located favourably at Inner Ring Road, Bengaluru, which comes under the Secondary Business District (SBD) of the city. Dell has occupied 0.72 million sq. ft. in Divyasree Greens since 2003 and further taken additional lease in 0.05 million sq. ft. area in Divyasree Greens Annexe post its completion in 2018. Further, competitive rental rates and substantial investments made by the tenants towards fit-outs reduce the vacancy risks to some extent.

Escrow mechanism in place with additional comfort in the form of DSRA – The lease rental discounting loan has an escrow mechanism which prioritises debt repayment before any other utilisation, along with adequate cushion between rental receipt

and EMI due dates. In addition, the company also maintains interest service reserve accounts (ISRA) equivalent to two months of interest servicing, which provides additional liquidity support.

Established track record of Divyasree Group – The Group has an established track record in development and management of commercial office space measuring over 9.3 million sq. ft. with assets spread across Bangalore, Hyderabad and Chennai. ICRA takes note of the partnership formed by Divyasree Group with Kotak Realty Fund in a \$400 million fund (\$200 million closed and \$200 million top-up option) anchored by Abu Dhabi Investment Authority (ADIA). The fund is expected to provide adequate equity capital for the future projects to be developed by the Group.

Credit challenges

High lessee concentration risk – Given the single tenant nature of the campus, the lessee concentration for the company remains high. However, the risks are partly mitigated by the significant under-renting in the assets with average rental rate being nearly half the current market rates. Further, the tenant has incurred significant amount in fit-outs, which moderates vacancy risks to some extent.

Modest coverage indicators and moderate leverage levels – DTBPL's debt coverage metrics are modest owing to moderate leverage, land lease expense and high tax outflows owing to non-operating income accruing to the company. The property is moderately leveraged with current Debt/Net Operating Income at 6.3 times, thus limiting financial flexibility.

Vulnerability of coverage indicators – The coverage indicators remain vulnerable to changes in interest rates, receipt of interest income from group companies and occupancy levels. Debt servicing is closely aligned to timely remittance of rentals by lessee and any delays could impact the same. However, ISRA maintained with the lenders mitigates its impact to an extent.

Liquidity position: Adequate

The company has an adequate liquidity profile owing to stable and predictable monthly/quarterly rental collections. The liquidity profile is further augmented by certain loan-specific features such as presence of escrow mechanism and maintenance of ISRA (two months of interest servicing) amounting to Rs. 6.6 crore as on March 2020 and unencumbered cash and FD balances totaling to Rs 23.2 crore as on March 31, 2020.

Rating sensitivities

Positive triggers – ICRA could upgrade DTBPL's rating if the company demonstrates a sustained reduction in leverage levels and further improvement in debt coverage metrics. Specific credit metrics include Debt Service Coverage Ratio (DSCR) greater than 1.2x on sustained basis.

Negative triggers – Negative pressure on DTBPL's rating could arise if there is any further weakening in debt protection metrics, for reasons including reduction in occupancy levels or increase in debt levels through debt funded capex or increased loans and advances to group companies.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on standalone financial statements or of the rated entity

About the company

DBTPL was incorporated in 2007 in order to undertake real estate development. The company's assets include 0.73 million sq. ft. of operational leasable area on Inner Ring road, Bangalore named DivyaSree Greens. The project was completed in 2003 and is leased out to Dell International Services Private Limited. The company has also developed and completed 0.05 million

sq. ft. of office space in 2018 named DivyaSree Greens Annexe in the land parcel adjoining DivyaSree Greens which is also leased out to Dell. The company is part of DivyaSree Developers which has completed over 9.3 million sq. ft. of commercial office space across Bengaluru, Hyderabad and Chennai. The group also has presence in residential real estate development.

Key financial indicators

DTBPL Standalone	FY2018	FY2019	FY2020*
Operating Income (Rs. crore)	65.4	71.9	81.6
PAT (Rs. crore)	9.4	23.3	30.5
OPBDIT/OI (%)	75.9%	79.6%	80.5%
RoCE (%)	18.7%	15.7%	16.7%
Total Outside Liabilities/Tangible Net Worth (times)	10.3	6.9	4.4
Total Debt/OPBDIT (times)	8.4	7.2	6.3
Interest Coverage (times)	0.9	1.4	1.5
DSCR (times)	1.0	1.3	1.3

* FY2020 financials numbers are provisional in nature

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/ (Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Jan 27, 2021			
1	Term Loan	Long Term	447.4	412.1^	[ICRA]BBB (Stable)	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	Jun-2017	NA	May- 2029	414.40	[ICRA]BBB(Stable)
NA	Term Loan	Oct-2018	NA	Sep- 2033	33.0	[ICRA]BBB(Stable)

Source: DTBPL

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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Branches



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