

April 30, 2021

## Divyasree Tarbus Builders Private Limited: Rating upgraded to [ICRA]BBB+ (Stable), rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs.crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	447.40	560.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB (Stable)
<b>Total</b>	<b>447.40</b>	<b>560.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating action favourably considers the refinancing of lease rental discounting (LRD) loans of Divyasree Tarbus Builders Private Limited (DTBPL or the company) in March 2021 with improved maturity profile and lower interest rate, both of which have enhanced the company's debt service coverage ratio (DSCR) metrics. The rating continues to draw strength from the established operational track record of Divyasree Greens, a 0.72 million sq. ft. commercial office building owned by 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 Greens 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 LRD loan of DTBPL have an escrow mechanism along with debt service reserve accounts (DSRA) equivalent to one quarter of debt 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 or 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. Notwithstanding the improvement in coverage ratios through refinancing, the rating is constrained by high leverage levels with LRD debt to rental ratio of 7.7 times as on March 2021, thus limiting financial flexibility of the company. 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 the comfortable debt coverage metrics, long track record of operations and healthy asset profile, which is expected to support stable occupancy and cash flow generation. 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.

**Improvement debt coverage metrics with recent refinancing** - The company has refinanced its earlier loan along with a top-up for a total sanction amount of Rs. 560 crore. Though there has been increase in leverage levels due to the recent refinancing, there is substantial improvement in the DSCR metric due to reduction in interest rate by 185 bps and improvement in maturity profile to 15 years compared to 9 years balance maturity in the earlier loan.

**Escrow mechanism in place with liquidity support 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 needs to maintain DSRA equivalent to one quarter of debt obligations, 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. ICRA notes that the largest lease with the tenant has recently been renewed in January 2021 for a further five-year period.

**High leverage levels resulting in limited financial flexibility** – The leverage level as measured through the ratio of LRD debt to rental income, has increased from 5.4 times to 7.7 times post the refinancing, thus limiting financial flexibility over the medium term.

**Vulnerability of coverage indicators** – Notwithstanding the loan refinancing, DTBPL's debt coverage metrics remain moderate owing to non-uniform DSCR structure over loan tenure, land lease expense and high tax outflows owing to non-operating income accruing to the company. The coverage indicators remain vulnerable to changes in interest rates, receipt of interest income from group companies and occupancy levels. However, DSRA 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 DSRA (1 quarter of debt servicing obligations) as per the refinanced loan and unencumbered cash and FD balances totaling to Rs 23.2 crore as on March 31, 2020.

## Rating sensitivities

**Positive factors** – ICRA could upgrade DTBPL's rating if the company demonstrates a sustained reduction in leverage levels or further improvement in debt coverage metrics. Specific credit metrics include five-years average debt service coverage ratio (DSCR) greater than 1.3x.

**Negative factors** – Negative pressure on DTBPL's rating could arise if there is any 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Debt Backed by Lease Rentals</a>
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 (FY2022)			Chronology of Rating History			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Apr 30, 2021	Jan 27, 2021	-	-
1	Term Loan	Long Term	560.0	560.0	[ICRA]BBB+ (Stable)	[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	Mar-2021	NA	Jan-2036	560.0	[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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