

July 22, 2022

Divyasree Tarbus Builders Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term Fund-based Term Loan	560.0	560.0	[ICRA]BBB+ (Stable); reaffirmed
Total	560.0	560.0	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to factor in the established operational track record of Divyasree Tarbus Builders Private Limited's ("DTBPL" or "the company") office property, Divyasree Greens, located at Inner Ring Road, Bengaluru. The company has also developed another building named Divyasree Greens Annexe in the land parcel adjoining Divyasree Greens. The rating positively factors in the long-term leases signed with Dell for both the buildings, which has been occupying Divyasree Greens building since 2003. Lease non-renewal risk or vacancy risk is partially mitigated by lower than market rent rates prevailing currently, and investments made by tenants towards fit-outs. ICRA notes that the escrow mechanism and debt service reserve accounts (DSRA) equivalent to one quarter of debt obligations supports the liquidity profile of the company. The rating also draws comfort from the established track of Divyasree Group in the development and management of commercial real-estate assets.

The rating continues to be 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. The rating is also constrained by the moderate coverage ratios on account of the high leverage levels with LRD debt to rental ratio of 7.5 times as on March 2022, thus limiting financial flexibility of the company. The debt coverage ratios remain vulnerable to any changes in interest rates and occupancy levels.

The Stable outlook on the rating reflects ICRA's opinion that DTBPL will continue to benefit from the long track record of operations and healthy asset profile, which is expected to support stable occupancy and cash flow generation.

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 liquidity support in the form of DSRA - The lease rental discounting loan has an escrow mechanism which prioritizes debt repayment before any other utilization, 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 is high at 7.5 times in FY2022, thereby resulting in moderate coverage indicators and limiting financial flexibility over the medium term.

Vulnerability of coverage indicators –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 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 rental collections. The liquidity profile is further augmented by certain loan-specific features such as presence of escrow mechanism and maintenance of DSRA (three-month EMI) amounting to Rs. 15.01 crore as on March 2022 and unencumbered cash and FD balances totaling to Rs 23.5 crore as on March 31, 2022.

Rating sensitivities

Positive factors – ICRA could upgrade DTBPL's rating if the company demonstrates a sustained reduction in leverage levels and 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	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

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)	FY2021	FY2022P
Operating Income (Rs. crore)	76.7	78.6
PAT (Rs. crore)	23.2	39.7
OPBDIT/OI (%)	85.6%	87.8%
PAT/OI (%)	30.2%	50.5%
Total Outside Liabilities/Tangible Net Worth (times)	6.1	4.2
Total Debt/OPBDIT (times)	9.4	8.7
Interest Coverage (times)	1.3	1.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; FY2022 financials are provisional in nature

Source: Company, ICRA research.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					July 22, 2022	Apr 30, 2021	Jan 27, 2021	-
1	Term Loan	Long Term	560.0	546.9	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-

Complexity level of the rated instrument - Simple

Instrument	Complexity Indicator
Long-term – Fund based – Term loan	Simple

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 analyzing 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	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: Company.

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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