March 13, 2023

Divyasree Infrastructure Developers Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term loans	120.00	120.00	[ICRA]BBB+ (Stable); reaffirmed
Non-fund based – Bank guarantee	8.00	8.0	[ICRA]BBB+ (Stable); reaffirmed
Total	**128.00**	**128.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Divyasree Infrastructure Developers Private Limited (DIDPL) factors in the long-term lease signed with Accenture, which has been occupying the entire building since June 2016. The rating considers the favourable location of the property in Sholinganallur, Chennai, an established location for commercial office space. Additionally, the competitive rental rates reduces the vacancy risk to an extent. The rating draws comfort from the established track record of the Divyasree Group in the development and management of commercial real estate assets.

The rating continues to be constrained by the single asset as well as single tenant concentration risks, and the consequent exposure to market risk in case of any vacancy/non-renewal of leases. Nonetheless, these risks are partially offset by the asset's competitive rental rates, profile of the tenant and the investments made by the tenant towards fit outs. Further, the debt coverage ratios remain vulnerable to any changes in interest rates and occupancy levels.

The Stable outlook reflects ICRA's opinion that DIDPL will continue to benefit from the healthy asset and counterparty profile, which is expected to support stable occupancy and cash flow generation.

Key rating drivers and their description

Credit strengths

Established track record of promoters – The Divyasree Group has an established track record in development and management of commercial office space measuring over 19 million sq. ft. with assets spread across Bangalore, Hyderabad and Chennai. In the residential segment, the company has completed over 5 million sq. ft. projects spread across Bangalore, Hyderabad and Chennai.

Favourable location of the property and long lease tenure reduce vacancy risk – The project is favourably located in Sholingalnallur, Chennai, which is an established location for commercial office space and competitive rental rates, thereby reducing the vacancy risk to an extent. Accenture has been occupying the entire building since June 2016 and also made investments towards fit outs. The lease tenure, including renewal options, is for 20 years with renewal required every five years.

Credit challenges

Single asset concentration risk and single tenant concentration risk – The company's dependence on a single asset exposes it to asset concentration risk. The tenant concentration is high with Divyasree Point occupied by Accenture, exposing DIDPL to market risk in case of any vacancy/non-renewal of lease. Nonetheless, this risk is mitigated by the profile of the tenant and the investments made by them towards fit outs.

Vulnerability to external factors – DIDPL's revenues are exposed to adverse macroeconomic and external conditions such as the Covid-19 pandemic, which could impact the tenant's business risk profile. Further, the coverage indicators remain vulnerable to interest rates that are linked to the floating MCLR rates.

Liquidity position: Adequate

The company's liquidity position is adequate with cash and bank balances of Rs. 6.9 crore as on February 25, 2023. Further, liquidity is supported by the presence of DSRA of around Rs. 5.0 crore, which is three months of debt obligation (P+I). It has debt repayment obligations of Rs. 5.6 crore in FY2023 and Rs. 6.5 crore in FY2024, which can be comfortably serviced through the estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade DIDPL's rating if the company demonstrates a sustained reduction in leverage levels and improvement in debt coverage metrics. Specific credit metrics include 5-year average DSCR greater than 1.3 times on a sustained basis.

Negative factors – Negative pressure on DIDPL's rating could arise if there is any material decline in occupancy or increase in indebtedness resulting in weakening of debt protection metrics on a sustained basis.

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 the company's standalone financial profile

About the company

DIDPL was incorporated in 2004 to undertake real estate development. The company currently has a commercial development in a project called Divyasree Point in Sholinganallur, Chennai. It has a total leasable area of 0.65 million sq. ft, out of which Divyasree has a share of 0.36 million sq. ft. The said property is entirely leased out to Accenture.

The company is part of the Divyasree Group, which has an established track record of more than two decades in the real estate sector. In the commercial segment, it has completed over 19 million sq. ft. of office space across Bengaluru, Hyderabad and Chennai. In the residential segment, the Group has completed over 5 million sq. ft. of projects including high end villas, apartments and plotted development in Bangalore, Hyderabad and Chennai.

Key financial indicators (audited)

DIDPL	FY2021	FY2022
Operating income	32.7	31.4
PAT	0.2	-0.9
OPBDIT/OI	62.6%	66.8%
PAT/OI	0.7%	-2.8%
Total outside liabilities/Tangible net worth (times)	22.5	39.0
Total debt/OPBDIT (times)	12.8	20.4
Interest coverage (times)	1.0	0.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source:

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 for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 13, 2023	Feb 25, 2022	Jan 21, 2021	-
1	Term loans	Long term	120.0	168.2^	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-
2	Non-fund based – Bank guarantee	Long term	8.0	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-

^represents outstanding amount of the refinanced facility

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term – Non-Fund based – Bank guarantee	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 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Term loan-I**	April 2021	NA	March 2036	120.0	[ICRA]BBB+ (Stable)
-	**Bank guarantee**	-	-	-	8.0	[ICRA]BBB+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis - NA

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4547 4829
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 4547 4829
anupama.reddy@icraindia.com

Abhishek Lahoti
+91 40 4547 4829
abhishek.lahoti@icraindia.com

Vishal R
+91 80 4332 6419
vishal.r@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches