

July 28, 2023

## 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
<b>Total</b>	<b>560.0</b>	<b>560.0</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation factors in the established operational track record of Divyasree Tarbus Builders Private Limited's (DTBPL) office property, Divyasree Greens, located at Inner Ring Road, Bengaluru. The company has developed another building named Divyasree Greens Annexe in the land parcel adjoining Divyasree Greens. The rating notes the long-term leases signed with Dell International Services Private Limited (Dell) for the Greens building occupied since 2003. Lease non-renewal risk or vacancy risk for Dell, the largest tenant, is partially mitigated by the significantly lower (~Rs. 83 per sft) rent rates compared to the prevailing market rent rates (~Rs. 135-140 per sft) and investments made by the tenant towards fit outs. ICRA notes that the lease rental discounting loan (LRD) has an escrow mechanism and a debt service reserve accounts (DSRA) equivalent to one quarter of debt obligations. The rating considers the established track record of Divyasree Group in the development and management of commercial real estate assets.

The rating, however, remains constrained by the modest debt coverage ratios on account of the moderate leverage levels with debt to net operating income of 7.0 times as of March 2023, limiting its financial flexibility. The rating continues to be constrained by the high tenant concentration risk with tenant, Dell, occupying around 93% of the total leasable area and the consequent exposure to market risk in case of any vacancy or non-renewal. from the same. 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 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 at Inner Ring Road, Bengaluru, which comes under the Secondary Business District (SBD) of the city. Divyasree Greens is a Grade-A property with high-end infrastructure, at a prime location near Embassy Golf Links and has a reputed tenant, Dell. Further, competitive rental rates and substantial investments made by the tenants towards fit outs reduce the vacancy risks to some extent. The Divyasree Group has an established track record in development and management of commercial office space measuring over 19 million square feet (msf) with assets spread across Bangalore, Hyderabad, and Chennai.

**High mark-to-market potential** – The key tenant Dell, has significantly lower (~Rs. 83 per sft) rent rates currently compared to the prevailing market rent rates (~Rs. 135-140 per sft) resulting in low vacancy risk. ICRA notes that the LRD loan has an escrow mechanism and a DSRA equivalent to one quarter of debt obligations.

## Credit challenges

**High lessee concentration risk** – The company’s dependence on a single asset exposes it to asset concentration risk. The tenant concentration is high with Dell occupying around 93% of the total leasable area, exposing the company to high lessee concentration risk. However, these risks are partly mitigated by the assets’ competitive rental rates, profile of the tenant and the investments made by the tenant towards fit outs.

**Modest coverage metrics** – The leverage level as measured by debt to net operating income remained moderate at 7.0 times in FY2023, thereby resulting in modest coverage indicators and limiting financial flexibility over the medium term. The coverage indicators remain vulnerable to changes in interest rates and occupancy levels.

## Liquidity position: Adequate

The company has an adequate liquidity profile owing to stable and predictable rental collections. The liquidity profile is supported by loan-specific features such as presence of escrow mechanism and maintenance of DSRA (three-month EMI) and one year land lease rental advance amounting to Rs. 20.3 crore and unencumbered cash balances of Rs. 9.6 crore as on March 31, 2023. It has repayment of obligations of Rs. 67.6 crore in FY2024, which can be comfortably serviced through its estimated cash flow from operations.

## Rating sensitivities

**Positive factors** – ICRA could upgrade DTBPL’s rating if there is a material improvement in rental rates considering the huge mark to market potential and/or reduction in leverage levels. Specific credit metrics include five-year’s average debt service coverage ratio (DSCR) greater than 1.25 times.

**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. Further, a material increase in loans and advances adversely impacting the liquidity of DTBPL may put pressure on the rating.

## 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	Standalone

## About the company

DTBPL was incorporated in 2007 to undertake real estate development. The company’s assets include 0.73 msf 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 developed and completed 0.05 msf of office space in 2018 named Divyasree Greens Annexe in the land parcel adjoining Divyasree Greens. DTBPL is part of Divyasree Developers, which has completed over 9.3 msf of commercial office space across Bengaluru, Hyderabad, and Chennai. The Group also has presence in residential real estate development.

### Key financial indicators

DTBPL (Standalone)	FY2022	FY2023
	Audited	Provisional
Operating income	79.8	85.2
PAT	38.0	43.1
OPBDIT/OI	85.9%	88.5%
PAT/OI	47.6%	50.6%
Total outside liabilities/Tangible net worth (times)	4.5	3.4
Total debt/OPBDIT (times)	8.8	7.7
Interest coverage (times)	1.4	1.5

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

Source: Company, ICRA Research

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

Sl. No.	Instrument	Current Rating (FY2024)				Chronology of Rating History		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					July 28, 2023	July 22, 2022	Apr 30, 2021	Jan 27, 2021
1	Term loan	Long-term	560.0	528.7	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)

### Complexity level of the rated instruments

Instrument	Complexity Indicator
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 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 / 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

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

#### Annexure II: List of entities considered for consolidated analysis: Not Applicable

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