December 18, 2023

Divija Commercial Properties Pvt Ltd: Rating upgraded to [ICRA]A (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	2,100.00	2,100.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Total	**2,100.00**	**2,100.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for Divija Commercial Properties Private Limited (DCPPL) factors in the sustained improvement in the leverage, while maintaining 100% occupancy levels. Backed by healthy occupancy of the asset and prepayment of debt (~Rs. 135 crore prepaid till date), the leverage (debt/NOI) is estimated to be comfortable at around 3.9 times by the end of FY2024. The rating notes the excellent project location and strong occupancy with reputed multinational companies. The rating also draws comfort from the presence of strong promoters (50% stake each by the RMZ Group and My Home Group) with an established track record in the commercial real estate space. Further, the comfortable leverage lends strong financial flexibility.

The rating is, however, constrained by the moderate debt coverage metrics, given the short debt tenure. DCPPL's coverage metrics remain exposed to any decline in occupancy or substantial increase in interest rates. The company is also exposed to geographical and asset concentration risks inherent in single asset nature of the development and moderate tenant concentration, which heightens the market risk in case of any significant vacancy/non-renewal of leases. Nonetheless, these risks are partially offset by the reputed profile of the tenants and the investments made by the tenants towards fit outs.

The Stable outlook reflects ICRA's expectation that the company will continue to benefit from the attractive location of property, healthy occupancy levels and comfortable leverage metrics.

Key rating drivers and their description

Credit strengths

Strong promoter profile with established track record in the commercial and real estate business – DCPPL is a 50-50 joint venture (JV) between Zola Real Estate Private Limited (ZREPL, part of My Home Group) and RMZ Infotechpark (India) Private Limited (RIIPL, part of RMZ Group). My Home Group is based out of Hyderabad and has interests in real estate, transportation, and cement manufacturing, while the RMZ Group is a leading player in the commercial real estate segment in Bangalore.

Healthy occupancy and comfortable leverage levels – The company has been able to sustain improvement in the leverage levels while maintaining 100% occupancy levels, with reputed multinational companies. Backed by healthy occupancy of the asset and prepayment of debt (~Rs. 135 crore prepaid till date), the leverage (debt/NOI) is estimated to be comfortable at around 3.9 times by end of FY2024.

Favourable asset location – The project is favourably located in Raidurg, Hyderabad, which is near Gachibowli and Hitec City, wherein there is healthy demand for commercial office space. The area is characterised by good infrastructure and has been a preferred micro-market for multinational companies taking up space in and around Hyderabad.

Credit challenges

Moderate debt coverage metrics – The coverage indicators are moderate, given the short debt tenure. DCPPL's coverage metrics remain exposed to any decline in occupancy or substantial increase in interest rates.

Single asset concentration and moderate tenant concentration risks – DCPPL owns a single asset, viz, the Skyview. It is exposed to geographical and asset concentration risks inherent in single asset nature of the development and moderate tenant concentration, which heightens the market risk in case of any significant vacancy/non-renewal of leases. The top five tenants occupy 30% of the total leasable area and contributes around 28% of the total rental income. Nonetheless, these risks are partially offset by the reputed profile of the tenants and the investments made by the tenants towards fit outs.

Liquidity position: Adequate

The liquidity profile is adequate. Backed the healthy occupancy, the cash flow from operations is expected to be adequate to service the debt obligations. The company has principal repayment of Rs. 215 crore in FY2024 and Rs. 234 crore in FY2025. As on September 30, 2023, it has free cash balance of ~Rs. 25 crore. During FY2021-FY2023, DCPPL has prepaid around ~Rs. 135 crore of debt through internal accruals.

Rating sensitivities

Positive factors – The rating can be upgraded if the company is able to sustain high occupancies and significantly improve the debt coverage metrics. Specific credit metrics include 5-year average DSCR greater than 1.3 times on a sustained basis.

Negative factors – Downward pressure on the rating could arise if there is any material decline in occupancy levels or significant increase in indebtedness resulting in deterioration of debt protections metrics on a sustained basis. Specific credit metrics for a downgrade include debt/NOI greater than 6.0 times 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 DCPPL's standalone financial statements

About the company

Divija Commercial Properties Private Limited (DCPPL) is a special purpose vehicle (SPV) set up to undertake a commercial office real estate development project in Hitec City, Hyderabad. The company is a 50-50 JV between Zola Real Estate Private Limited (part of My Homes Group) and RMZ Infotechpark (India) Pvt Ltd (part of RMZ Group). My Home Group has interests in real estate, transportation, cement manufacturing, project consultancy, property management services, and education, while RMZ Group is one of the leading players in the commercial real estate segment in the country.

DCPPL started construction of a commercial office project – The Skyview – in Q4 FY2016 and received the occupancy certificate for the same in Q4 FY2019. The land for the project, measuring 10.38 acres, is owned by the SPV and the total leasable area of 3.71 msf is 100% occupied. There is an amenity area of 0.21 msf. The total project cost for the commercial project was around Rs. 1,950 crore, which was funded by a term loan of Rs. 1,450 crore and the rest through promoter funding.

Key financial indicators

Standalone	FY2022	FY2023
	Audited	Audited
Operating income	404.3	440.9
PAT	98.5	158.3
OPBDIT/OI	79.2%	85.6%
PAT/OI	24.4%	35.9%
Total outside liabilities/Tangible net worth (times)	8.0	4.4
Total debt/OPBDIT (times)	6.1	4.5
Interest coverage (times)	1.8	2.2

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 for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 18, 2023	Oct 07, 2022	Jul 16, 2021	Oct 05, 2020
1	**Term loan**	Long term	2100.0	1701.0	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Positive)**

Complexity level of the rated instruments

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 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
NA	**Term loan**	September 2017	-	September 2030	1450.0	[ICRA]A (Stable)
NA	**Term loan**	January 2020	-	January 2031	650.0*	[ICRA]A (Stable)

**Sanctioned Rs. 860 crore.*
Source: Company

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

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About ICRA Limited:

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