

January 24, 2024

## DS-Max Properties 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	122.00	134.00	[ICRA]BBB+ (Stable); reaffirmed
Long-term – Fund-based – Overdraft	18.00	6.00	[ICRA]BBB+ (Stable); reaffirmed
Long-term – Non-fund-based – Bank guarantee	17.60	10.00	[ICRA]BBB+ (Stable); reaffirmed
Long-term – Unallocated	32.40	0.00	-
<b>Total</b>	<b>190.00</b>	<b>150.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation for DS-Max Properties Private Limited (DSM) factors in the healthy sales and collections from its ongoing and completed projects, along with adequate construction progress in its ongoing projects, funded primarily by customer advances with limited debt. DSM witnessed 44% YoY growth in sales to 1.9 million square feet (msf) as on March 31, 2023, and an increase in collections from the residential segment by 28% to Rs. 364 crore in FY2023. The company is expected to maintain the healthy sales and collections in FY2024 and FY2025, backed by good sales velocity in its ongoing projects and planned upcoming launches. Further, DSM's committed cash flow remained healthy at 107%, against the pending construction cost and outstanding debt as on September 30, 2023, owing to healthy sales in the ongoing projects. The rating continues to derive comfort from DSM's strong track record in real estate development in Bengaluru, its established brand image in the affordable housing segment, along with its asset-light business model.

The rating is, however, constrained by the execution and market risks for the recently launched projects and upcoming launches over the next six months (~2.5 msf). Its debt/net working capital (debt/NWC) remains elevated, which reduces the financial flexibility in case of any decline in sales or collections. The rating continues to factor in the company's moderate scale of operations and profitability, with presence limited to the affordable housing segment in Bengaluru's real estate market. The rating also considers the cyclical nature inherent in the real estate industry. The company is exposed to counterparty credit risk that exists in the construction contract segment, along with moderate execution risk since large projects are in the early stages of execution.

The Stable outlook reflects ICRA's expectations that DSM will continue to maintain healthy sales and collection and benefit from the healthy committed cash flow cover and its established brand presence in the affordable housing segment in Bengaluru.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience and established brand image in affordable housing segment** – Established in 2007, DSM is involved in real estate development and has completed more than 80 residential projects encompassing over 87 lakh square feet (lakh sft) of constructed area primarily in the affordable housing segment in Bengaluru, reflecting its established brand image. Its promoter, Mr. K. V. Satish, has over a decade of experience in the real estate industry and is involved in the sales and marketing of the projects.

**Healthy cash flow adequacy** – As of September 2023, the company reported committed receivables of around Rs. 427 crore from the ongoing projects, against the pending cost of Rs. 295 crore and Rs. 75 crore of debt outstanding. Its committed cash flow remained healthy at 107%, against the pending construction cost and outstanding debt as on September 30, 2023, owing to healthy sales in the ongoing projects. Further, the cash flow security cover stood comfortable at 4.8 times as on September 30, 2023.

### Credit challenges

**Moderate scale of operations and concentrated on affordable housing segment** – Notwithstanding its established brand image in Bengaluru’s affordable housing segment, the concentration on a single segment limits DSM’s ability to improve its scale of operations and diversify business profile. While the company diversified its operations by entering the construction sector in 2017 for building low-cost residential units under the Government housing projects, significant client-side delays have hampered the execution progress in these contracts.

**High debt/net working capital; exposure to execution and market risk** – The company’s debt/net working capital (debt/NWC) remains elevated, which reduces the financial flexibility in case of any decline in sales or collections. Moreover, the recently launched projects and upcoming launches over the next six months (~2.5 msf) exposes it to execution and market risks in the real estate segment. In the construction segment, the execution risk is moderate since the construction contracts have witnessed significant client-side delays in the past and remains in the early stages of execution. In the construction segment, the company faces counterparty credit risks as well.

**Inherent cyclicality in real estate sector** – Being a cyclical industry, the real estate business is highly dependent on macroeconomic factors, which renders the company’s sales vulnerable to any downturn in demand.

### Liquidity position: Adequate

The company’s liquidity position is adequate. DSM has an unencumbered cash and liquid investments of Rs. 57.0 crore as on March 31, 2023, which along with estimated cash flow from operations are expected to be adequate to meet the repayment obligations. It is likely to incur around Rs. 50-60 crore towards land investments in FY2024 and FY2025, which will be funded by debt and internal accruals.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the company’s rating if there is a consistent improvement in scale of operations and profitability with healthy pace of bookings and collections, as well as improved execution of construction contract orders. Further, a significant improvement in total debt/NWC ratio will be a credit positive.

**Negative factors** – ICRA could downgrade the company’s rating if any significant decline in cash flow from operations due to subdued booking levels or material decline in collections leads to weakening of its liquidity position. Specific metrics that may result in a rating downgrade include cash flow adequacy ratio declining below 50% on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology Realty - Commercial/Residential/Retail</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of DSM.

## About the company

Incorporated in 2007, DS-Max Properties Private Limited (DSM) is involved in real estate development with presence mainly in Bangalore. Over the past ten years, DSM has completed ~80+ projects encompassing more than 8.7 msf. The company primarily develops apartments for the mid income and affordable housing segments and has a strong brand image in this segment. At present, it is executing 11 projects encompassing ~3.3 msf of saleable area. Besides, it also has six upcoming projects of ~2.2 msf, which are under various stages of approvals. Moreover, the company has a small portion of revenues derived from construction contracts for building of dwelling units under housing projects for Andhra Pradesh, Telangana, and the Central Government.

## Key financial indicators

Standalone	FY2022	FY2023
	Audited	Audited
Operating income	250.6	404.0
PAT	6.6	9.0
OPBDIT/OI	10.1%	8.9%
PAT/OI	2.6%	2.2%
Total outside liabilities/Tangible net worth (times)	2.1	2.8
Total debt/OPBDIT (times)	2.7	4.7
Interest coverage (times)	2.6	2.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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

## Any other information: None

## Rating history for past three years

Sl. No.	Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years					
			Amount rated (Rs. crore)	Amount outstanding as on Jan 18, 2024 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	
					Jan 24, 2024	Oct 31, 2022	Aug 31, 2021	Aug 20, 2020	Aug 13, 2020	
1	Fund based – Term loan	Long term	134.00	134.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2	Fund based – Overdraft	Long term	6.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	
3	Non-fund-based – Bank guarantee	Long term	10.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
4	Unallocated	Long term	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term fund-based – Overdraft	Simple
Long-term non-fund based – Bank guarantee	Very 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- I	June 2022	NA	March 2026	25.00	[ICRA]BBB+ (Stable)
NA	Term loan- II	Sept 2021	NA	April 2026	9.00	[ICRA]BBB+ (Stable)
NA	Term loan- III	March 2023	NA	April 2027	12.00	[ICRA]BBB+ (Stable)
NA	Term loan- IV	March 2023	NA	Oct 2027	18.00	[ICRA]BBB+ (Stable)
NA	Term loan- V	Sept 2023	NA	Sept 2027	15.00	[ICRA]BBB+ (Stable)
NA	Term loan- VI	FY2024*	NA	FY2027#	55.00	[ICRA]BBB+ (Stable)
NA	Overdraft	NA	NA	NA	6.00	[ICRA]BBB+ (Stable)
NA	Bank guarantee	NA	NA	NA	10.00	[ICRA]BBB+ (Stable)

Source: Company

\*represents different term loans sanctioned in FY2024

#represents the farthest maturity date among the various maturity dates for different term loans

[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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