

April 26, 2024

## Divyasree Tarbus Builders Private Limited: Rating reaffirmed; rated amount enhanced; outlook revised to Negative from Stable

### Summary of rating action

| Instrument*                        | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action  |
|------------------------------------|--------------------------------------|-------------------------------------|--|
| Long-term – Fund-based – Term loan | 560.0                                | 664.0                               | [ICRA]BBB+ (Negative); reaffirmed/assigned for the enhanced amount and Outlook revised to Negative from Stable |
| <b>Total</b>                       | <b>560.0</b>                         | <b>664.0</b>                        |  |

\*Instrument details are provided in Annexure-I

### Rationale

The revision in outlook on the long-term rating of Divyasree Tarbus Builders Private Limited (DTBPL) to Negative factors in the increase in leverage with refinancing of debt with an additional top-up of Rs. 150 crore and the consequent estimated moderation in the debt coverage metrics. DTBPL's total debt increased to Rs. 663.5 crore as of February 2024 from Rs. 514.0 crore as of December 2023 resulting in estimated high leverage of around 8.2 times as of March 2024 and modest debt coverage metrics in the medium term. The top-up loan is largely utilised as loans and advances to group companies.

The rating continues to factor in the established operational track record of DTBPL's office assets, and the favourable location of the project, with Divyasree Greens and Divyasree Greens Annexe located at Inner Ring Road, Domlur, Bengaluru. Divyasree Greens is leased to Dell International Services Private Limited (Dell) since 2003. The lease non-renewal risk or vacancy risk for Dell, the largest tenant, is partially mitigated by the significantly lower (~Rs. 83 per sft) rental rates compared to the prevailing market rent rates (~Rs. 135-140 per sft) and investments made by the tenant towards fit outs. The rating considers the established track record of Divyasree Group in the development and management of commercial real estate assets.

The rating, however, continues to be constrained by the vulnerability of the debt coverage metrics to any changes in interest rates and occupancy levels. The rating is 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 significantly lower rental rates, reputed profile of the tenant and the investments made by the tenant towards fit outs.

### Key rating drivers and their description

#### Credit strengths

**Favourable asset profile** – Divyasree Group's established operational track record in development and management of commercial office space, along with favourable location of the office space, supports healthy leasing. Projects, Divyasree Greens and Divyasree Greens Annexe are located at a prime location near Embassy Golf Links, at Inner Ring Road, Domlur, Bangalore. The project is a Grade-A property with high-end infrastructure and is located in close proximity to the residential areas of Indiranagar and Koramangala and close to the junction with Old Airport Road, which connects it to Whitefield. The project is a built-to-suit (BTS) campus for a reputed tenant, Dell, wherein Dell has consolidated its operations in the asset with investments made on fit outs, along with successful implementation of scheduled lease renewals and rent escalations.

**High mark-to-market potential** – The key tenant, Dell, has significantly lower (~Rs. 83 per sft) rental rates compared to the prevailing market rent rates (~Rs. 135-140 per sft) resulting in low vacancy risk.

## Credit challenges

**High lessee concentration risk** – The company’s dependence on a single asset exposes it to asset concentration risk. The tenant concentration is also high with Dell occupying around 93% of the total leasable area. Consequently, it is exposed to market risk in case of any vacancy or non-renewal from the same. Nonetheless, these risks are partly mitigated by the asset’s significantly lower rental rates, reputed profile of the tenant and the investments made by the tenant towards fit outs.

**Modest debt protection metrics** – The leverage level is moderated owing to the top-up loan availed in January 2024 (Rs. 663.5 crore o/s as of February 2024 from Rs. 514.0 crore as of December 2023), as measured by debt to net operating income of ~8.2 times as of March 2024, which is expected to be in the range of 6.5-7.5 times in FY2025 and FY2026. Similarly, the coverage metrics with debt service coverage ratio (DSCR) is estimated to remain modest over the medium term. The DSCR remains vulnerable to any changes in interest rates and occupancy levels.

## Liquidity position: Adequate

The company has an adequate liquidity profile, supported by unencumbered cash and bank balance of ~Rs. 62.6 crore as on March 31, 2024. It has repayment of obligations of Rs. 63.7 crore in FY2025. While the debt coverage metrics are expected to remain modest in the near term, DTPPL has sufficient liquidity to support the debt repayments.

## Rating sensitivities

**Positive factors** – ICRA could revise the outlook of DTBPL’s rating if there is a material improvement in rental rates considering the significant mark to market potential and/or reduction in leverage levels on a sustained basis.

**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><br><a href="#">Realty - Lease Rental Discounting (LRD)</a> |
| Parent/Group support            | Not Applicable   |
| Consolidation/Standalone        | Standalone   |

## About the company

Divyasree Tarbus Builder Private Limited (DTBPL) was incorporated in 2007 and is involved in real estate development. The company’s assets include 0.73 million square feet (msf) of operational leasable area on Inner Ring Road, Domlur, Bangalore named Divyasree Greens. The project was completed in 2003 and is leased to Dell International Services Private Limited. The company has also developed and completed 0.05 msf of office space in 2018 named Divyasree Greens Annexe in the land parcel adjoining Divyasree Greens. Both the projects are 100% leased as on date. DTBPL is a part of Divyasree Developers, which has completed over 19.0 msf of commercial office space as stated in the company’s website as on April 16, 2024, across Bengaluru, Hyderabad, and Chennai. The Group also has presence in residential real estate development.

## Key financial indicators

| Standalone   | FY2022  | FY2023  |
|--|---------|---------|
|  | Audited | Audited |
| Operating income                                     | 79.8    | 91.4    |
| PAT  | 38.0    | 49.3    |
| OPBDIT/OI  | 86.1%   | 87.0%   |
| PAT/OI   | 47.6%   | 54.0%   |
| Total outside liabilities/Tangible net worth (times) | 4.5     | 3.3     |
| Total debt/OPBDIT (times)                            | 8.8     | 7.4     |
| Interest coverage (times)                            | 1.4     | 1.6     |

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 | Current rating (FY2025) |                          |   | Chronology of rating history for the past 3 years |                         |                         |                         |
|---------|------------|-------------------------|--------------------------|---|---|-------------------------|-------------------------|-------------------------|
|         |            | Type                    | Amount rated (Rs. crore) | Amount outstanding as of Feb 29, 2024 (Rs. crore) | Date & rating in FY2025                           | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 |
|         |            |                         |                          |   | April 26, 2024                                    | July 28, 2023           | July 22, 2022           | April 30, 2021          |
| 1       | Term Loan  | Long term               | 664.0                    | 663.5   | [ICRA]BBB+ (Negative)                             | [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               |

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       | January 2024     | NA          | December 2038 | 664.0                    | [ICRA]BBB+(Negative)       |

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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