June 21, 2024

Simpliwork Offices Pvt Ltd: 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	104.00	104.00	[ICRA]A (CE) (Stable); reaffirmed
Total	**104.00**	**104.00**	

Rating Without Explicit Credit Enhancement	[ICRA]A-; upgraded from [ICRA]BBB+

**Instrument details are provided in Annexure-I*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The rating reaffirmation of [ICRA]A (CE) (Stable) for the Rs. 104 crore term loan of Simpliwork Offices Pvt Ltd (SOPL) is based on the strength of the corporate guarantee provided by Sattva Developers Private Limited (SDPL; rated [ICRA]A+ with Stable outlook). The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, SDPL.

Adequacy of credit enhancement

The corporate guarantee is legally irrevocable, unconditional and covers the entire amount and tenor of the rated instrument, though it does not have a well-defined payment and invocation mechanism. Given these attributes, the guarantee provided by SDPL results in an enhancement in the rating of the said instrument to [ICRA]A (CE) against the rating of [ICRA]A- without explicit credit enhancement. If the rating of the guarantor or the unsupported rating of SOPL were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility. The rating of this instrument may also undergo a change in a scenario, whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

The rating without explicit credit enhancement of [ICRA]A- (revised from [ICRA]BBB+ during the last rating exercise) factors in improvement in the occupancy to 96% as of May 2024 on an expanded base (operational area increased by 13.3%), healthy debt coverage metrics and continued financial support from the Sattva Group for capex purposes. SOPL has geographically diversified portfolio with a total supply of ~4 msf of fully furnished and managed offices in Grade-A commercial buildings as of May 2024. With steady addition of area and improved occupancy, expected rental inflows are projected to increase by 20-23% year on year (YoY) in FY2025. Consequently, the debt coverage metrics as reflected by 5-year average debt service coverage ratio (DSCR, FY2025-FY2029) is likely to remain healthy at 1.70-1.72 times. In the past, the Group has extended support to SOPL in the form of unsecured loans required to meet any interim cash-flow mismatch. Such loans have been subsequently repaid by SOPL. The rating is, however, constrained by lease renewal risk, moderate tenant concentration risk and market risk for the upcoming area. Notwithstanding the lower churn rates of 4-5% in the past, the renewal rates of the future lease expiry will remain a key monitorable. In addition, SOPL is exposed to the cyclicality in the commercial real estate and vulnerability to external factors.

Salient covenants of the rated facility

» The entire lease rental cash flows from the tenants in the properties to be deposited in the designated escrow account(s).

» Debt Service Reserve Account (DSRA) of one month of interest plus principal to be maintained.

Key rating drivers and their description

Credit strengths

Geographically diversified portfolio with healthy occupancy levels; healthy debt coverage metrics – SOPL has a geographically diversified portfolio with major presence in Gurgaon, Hyderabad, Bengaluru and Pune. In addition, its area under development of 0.59 msf has a healthy leasing pipeline. With steady addition of area and improved occupancy to 96% as of May 2024 on an expanded base (operational area increased by 13.3%), the expected rental inflows are projected to increase by 20-23% year on year (YoY) in FY2025. Consequently, the debt coverage metrics as reflected by 5-year average DSCR (FY2025-FY2029) is likely to remain healthy at 1.70-1.72 times.

Corporate guarantee provided by SDPL - The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by SDPL. The rated instrument does not involve a structured payment mechanism. The rating assumes that the guarantee will be duly invoked in case of a default in payment by the borrower.

Extensive experience of Sattva Group in real estate industry – The Sattva Group, holds 55% of the shareholding of SOPL as of March 31, 2024. The Group has extensive experience across sectors like real estate, trading, hospitality and education. The key managerial personnel of the Group are also members on the board of directors of SOPL. The Sattva Group is one of the leading players in the Indian real-estate market with strong brand recognition and established track record of more than 37 years. In the past, the Group has extended support to SOPL in the form of unsecured loans required to meet any interim cash-flow mismatch. Such loans have been subsequently repaid by SOPL, post stabilisation of cash-flows.

Credit challenges

Exposure to lease renewal and moderate tenant concentration risks – SOPL remains exposed to lease renewal risks with 40% of the leased area due for renewal in FY2025 and FY2026. Notwithstanding the lower churn rates of 4-5% in the past, the renewal rates of the future lease expiry will remain a key monitorable. The company is also exposed to moderate tenant concentration risk. However, the healthy tenant profile and lease renewals provide some comfort.

Exposure to market risk due to capex plans – The company has demand backed and speculative capex plans at a total outlay of around ~Rs. 150 crore with proposed addition of around to 1 msf in FY2025, exposing it to market risk for the new capacities. The proposed capex is likely to be funded through internal accruals and external debt. Timely ramp-up of occupancy in the upcoming space remain important.

Vulnerability of commercial real estate sector to cyclicality – SOPL is exposed to the cyclicality in the office leasing segment and vulnerability to external factors. Further, the debt coverage ratios remain susceptible to material changes in occupancy and interest rates.

Liquidity position: Adequate

For the guarantor SDPL: Adequate

The company has adequate liquidity with ~Rs. 220 crore of cash and cash equivalents as of March 2023. The rental receipts are likely to be around Rs. 1,300-1,350 crore in FY2024 and is estimated to steadily improve going forward. This along with healthy collections from the residential segment are expected to be sufficient to meet all the operational and debt servicing requirements of the Group. Further, presence of undrawn LRD debt and available LRD top-up potential in the existing commercial projects provides liquidity support.

For the rated entity SOPL: Adequate

SOPL's liquidity profile is adequate with free cash and liquid investment of Rs. 50.6 crore as on March 31, 2024. The scheduled debt repayment obligations for FY2025 and FY2026 are expected to be comfortably serviced from estimated cash flow from operations. The capital expenditure is likely to be met through a combination of security deposits, internal accruals and external funding. ICRA expects that the company will be able to access funding support from the Sattva Group in case of short-term cash flow mismatches.

Rating sensitivities

Positive factors – The rating might be upgraded if there is a significant increase in the company's scale of operations, backed by healthy occupancy levels and improvement in the coverage metrics while maintaining comfortable leverage. The rating could also be upgraded in case of any upgrade in the credit profile of the guarantor, SDPL.

Negative factors – The rating could be downgraded in case of a material decline in occupancy levels or significant increase in indebtedness resulting in weakening of debt protections metrics on a sustained basis. Any deterioration in the credit profile of guarantor or weakening of linkages with the guarantor SDPL could also put pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD)
Parent/Group support	Group Company: Sattva Developers Private Limited (SDPL) ICRA expects SDPL to provide timely financial support to the company, for funding any shortfall, given their close financial linkages, its strategic importance and the Sattva Group's reputation sensitivity to default. Moreover, SDPL has provided an unconditional and irrevocable guarantee to the rated bank facility of Rs. 104 crore.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SOPL.

About the company

SOPL, incorporated on December 2017, provides build-to-suit, customised, fully furnished managed offices in Grade-A commercial buildings for medium and large enterprise customers. As on March 31, 2024, Sattva Group holds 55% of the shareholding of the company and the balance is held by individual promoters. It has total supply of 3.8 msf as on December 31, 2023. The company has taken up spaces in commercial buildings developed by players like DLF, Tata Realty and Infrastructure Limited, Brigade, Prestige, Sattva Group, Panchshil Realty Group, Purvankara, Embassy Group, Godrej Group, and My Home Group.

About the guarantor

The Salarpuria-Sattva group was founded by the late Mr G D Salarpuria in 1986 in Kolkata. At present, the Group is managed by Mr. Bijay Kumar Agarwal its Managing Director of the Group. It is one of the leading real estate developers in the Bangalore real estate market and has completed more than 70.5 msf developable area in the past 37 years of its existence. The Group is currently executing residential projects with saleable area of around 10.0 msf mainly located across Bangalore and Hyderabad.

The commercial properties of the Group which are located in prime locations in Bangalore and Hyderabad have witnessed healthy occupancy levels and have a reputed tenant profile.

Key financial indicators

SOPL	FY2022	FY2023
	Audited	Audited
Operating income	285.2	375.5
PAT	22.2	-67.6
OPBDIT/OI	21.9%	6.6%
PAT/OI	7.8%	-18.0%
Total outside liabilities/Tangible net worth (times)	-12.9	-7.0
Total debt/OPBDIT (times)	2.8	10.9
Interest coverage (times)	4.0	0.8

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

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of May Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 21, 2024	-	Mar 27, 2023	Mar 31, 2022
1	Term loans	Long term	104.0	25.0	[ICRA]A (CE) (Stable)	-	[ICRA]A (CE) (Stable)	[ICRA]A- (CE) (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**	Dec 2019	NA	Feb 2025	104.00	[ICRA]A (CE) (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

ANALYST CONTACTS

Rajeshwar Burla
+91 40 6939 6443
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 6939 6427
anupama.reddy@icraindia.com

Abhishek Lahoti
+91 40 6939 6433
abhishek.lahoti@icraindia.com

Rabbani Mohammed D
+91 40 6939 6422
d.rabbani@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches