November 03, 2023

DNR Corporation Private Limited: [ICRA]BBB- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loans	40.00	[ICRA]BBB- (Stable); assigned
Long-term – Interchangeable – Overdraft^	(1.00)	[ICRA]BBB- (Stable); assigned
Total	**40.00**	

**Instrument details are provided in Annexure-I; ^ Sublimit of term loans*

Rationale

The assigned rating factors in the favourable location of projects being developed by DNR Corporation Private Limited (DNR), which support its marketability and comfortable leverage. Around 51% of the stake in DNR is held by the promoters of Micro Labs Limited (Surana family) through its real estate arm – Micro Infrastructure India Pvt Ltd (Micro Infra). Micro Labs is a prominent domestic formulation manufacturer in the Indian pharmaceutical industry and has made significant investments in its real estate vertical over the past few years. The resourceful promoters aid financial flexibility. The company's reliance on external debt for the residential projects is low with Debt/CFO estimated to remain comfortable at 1.3-1.6 times during FY2024-FY2025. The funding risks for the commercial project, which is being funded in a debt to equity mix of 0.75:1, is moderate as the debt has been tied up and 50% of the committed equity has been infused as of March 2023. The coverage indicators are expected to be comfortable, given the limited debt obligations over the next two fiscals.

The rating, however, is constrained by the execution risk with 45% and 94% of the total project cost yet to be incurred for the ongoing residential projects – DNR Highline and DNR Parklink, respectively, and 58% for the commercial project (DNR Altitude) as on October 25, 2023. The company faces market risk for its ongoing residential as well as commercial projects. As on October 25, 2023, 59% of the area for DNR Highline was yet to be sold. While 31% of the total area was booked as on October 25, 2023, for its recently launched residential project - DNR Parklink, it remains exposed to market risk for the balance area. The cash flow adequacy[1] was moderate at 64% for DNR Highline and 52% for DNR Parklink as on October 25, 2023. Going forward, the company's ability to achieve incremental sales and collect the committed receivables in a timely manner remains important, as a significant portion of the pending cost for the residential projects is proposed to be funded by customer advances. The market risk for the commercial project (DNR Altitude) remains high as there is no pre-leasing tie-up as of date, though it is in discussion with the prospective tenants for lease tie-ups. The company's ability to achieve leasing on time at adequate rental rates will remain critical from the credit perspective. Nonetheless, DNR's tie-up with Hines International as a development manager for the commercial project provides comfort. Further, the rating is constrained by the inherent cyclicality in the real estate business and geographical concentration risk with significant dependence on Bengaluru micromarket for its completed, ongoing as well as future projects.

The Stable outlook reflects ICRA's expectation that the company' credit profile will be supported by the favourable location of the projects aiding their marketability and low leverage.

[1] *Cash flow adequacy = Receivables from sold area / (pending project cost + outstanding debt)*

Key rating drivers and their description

Credit strengths

Strong promoter group – DNR is 51% held by Micro Infra, the real estate arm of Micro Labs, which is promoted by members of the Surana family. The remaining 49% stake is held by members of the Kumat family. Micro Labs is a prominent domestic formulation manufacturer in the Indian pharmaceutical industry and has made significant investments in its real estate vertical over the past few years. The resourceful promoters aid financial flexibility.

Favorable location of project – The residential projects (DNR Highline and DNR Parklink) are located in Rajajinagar and Hennur Main Road, Chikkagubi Village, in Bangalore, respectively. The commercial project (DNR Altitude) is in Yeswanthapura, in Bangalore. All the projects enjoy good connectivity to the rest of Bangalore, which enhances their marketability.

Low leverage for ongoing projects; low funding risk for commercial segment – The company's reliance on external debt for the residential projects is low with Debt/CFO estimated to remain comfortable at 1.3-1.6 times during FY2024-FY2025. The funding risks for the commercial project, which is being funded in a debt to equity mix of 0.75:1, is moderate as the debt has been tied up and 50% of the committed equity has been infused as of March 2023. The coverage indicators are expected to be comfortable, given the limited debt obligations over the next two fiscals.

Credit challenges

Exposure to execution risk – The rating is constrained by the execution risk with 45% and 94% of the total project cost yet to be incurred for the ongoing residential projects – DNR Highline and DNR Parklink, respectively, and 58% for the commercial project (DNR Altitude) as on October 25, 2023.

Exposure to market risk – The company faces market risk for its ongoing residential as well as commercial projects. As on October 25, 2023, 59% of the area for DNR Highline was yet to be sold. While 31% of the total area was booked as on October 25, 2023, for its recently launched residential project – DNR Parklink, it remains exposed to market risk for the balance area. The cash flow adequacy was moderate at 64% for DNR Highline and 52% for DNR Parklink as on October 25, 2023. Going forward, the company's ability to achieve incremental sales and collect the committed receivables in a timely manner remains important, as a significant portion of the pending cost for the residential projects is proposed to be funded by customer advances. The market risk for the commercial project (DNR Altitude) remains high as there is no pre-leasing tie-up as of date, though the company is in discussion with prospective tenants for lease tie-ups. DNR's ability to achieve leasing on time at adequate rental rates will remain critical from the credit perspective. Nonetheless, its tie-up with Hines International as a development manager for the commercial project provides comfort.

Geographical concentration risk and inherent cyclicality in real estate sector – The real estate sector is cyclical and marked by volatile prices and a highly fragmented market structure because of a large number of regional players. In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which in turn render the company's sales vulnerable to any downturn in demand.

Liquidity position: Adequate

The company's liquidity position is adequate. As on March 31, 2023, it had free cash balance of Rs. 11.0 crore. The construction cost for residential projects is expected to be met from customer advances from incremental sales, undrawn debt and promoter contribution. For the commercial project, DNR reported Rs. 61.46-crore undrawn bank limits as on March 31, 2023, which along with the pending sponsors' contribution of Rs. 49.57 crore will be adequate to fund the remaining project cost of Rs. 111.03 crore. The cash flow from operations from the projects is estimated to be sufficient to service the debt obligations in FY2024 and FY2025.

Rating sensitivities

Positive factors – Healthy growth in residential sales and commensurate increase in collections from the ongoing and upcoming projects, coupled with significant lease tie-ups for the commercial project resulting in healthy leverage and debt coverage indicators could result in a rating upgrade.

Negative factors – Significant delays in project execution and/or subdued sales or collections resulting in a considerable increase in reliance on external debt for the residential portfolio could impact the rating. Inability to tie-up leases at adequate rental rates, in a timely manner, for the commercial project impacting the company's refinancing ability for conversion of construction finance loan into LRD loan or increase in indebtedness impacting its debt protection metrics could result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Real Estate Rating Methodology – Lease Rental Discounting (LRD)
Parent/Group support	NA
Consolidation/Standalone	ICRA has considered the cash flows of all the projects being developed by DNR, including the entire commercial project being developed under a joint venture with two other partners, given the presence of cross collaterisation and cross guarantee for the loans availed for this project.

About the company

DNR Corporation Private Limited is developing two residential projects – DNR Highline and DNR Parklink and one commercial project – DNR Altitude, in Bangalore. The residential projects – DNR Highline and DNR Parklink – has a total sale potential of 0.59 million square feet (msf) and 1.24 msf, respectively. The commercial project – Altitude (about 0.75 msf) is jointly developed by DNR Corporation (25%), Micro Infrastructure Private Limited (25%) (parent of DNR Corporation) and Krishna Priya Estates Private Limited (50%). Apart from this, the company is constructing a plotted development project in Devanahalli and is a development manager (DM) in a residential project DNR Arista. DNR has developed 1.1 msf of area in Bangalore till date.

Key financial indicators (audited)

DNR Corporation Private Limited (Standalone)	FY2021	FY2022	FY2023
Operating income	61.5	18.1	73.8
PAT	4.3	1.3	4.5
OPBDIT/OI	26.2%	-5.1%	5.7%
PAT/OI	7.0%	7.2%	6.2%
Total outside liabilities/Tangible net worth (times)	2.1	2.9	4.9
Total debt/OPBDIT (times)	6.5	-149.8	46.1
Interest coverage (times)	1.5	-5.5	151.5

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

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Oct 05, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 03, 2023	-	-	-
1	**Fund-based – Term loans**	Long term	40.00	33.5	**[ICRA]BBB- (Stable)**	-	-	-
2	**Interchangeable – Overdraft***	Long term	(1.00)	-	**[ICRA]BBB- (Stable)**	-	-	-

**Sublimit of term loans*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term – Interchangeable – Overdraft*	Simple

**Sublimit of term loans*

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 loans**	Jan 2022	NA	FY2028	40.00	[ICRA]BBB- (Stable)
NA	**Interchangeable – Overdraft***	NA	NA	NA	(1.00)	[ICRA]BBB- (Stable)

*Source: Company; *Sublimit of 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

Company Name	Relationship*	Consolidation Approach
DNR Corporation Private Limited	100% (rated entity)	Full Consolidation
Micro Infrastructure India Private Limited	Group company	Limited Consolidation
Krishna Priya Estates Private Limited	-*	Limited Consolidation

**JV Partner*

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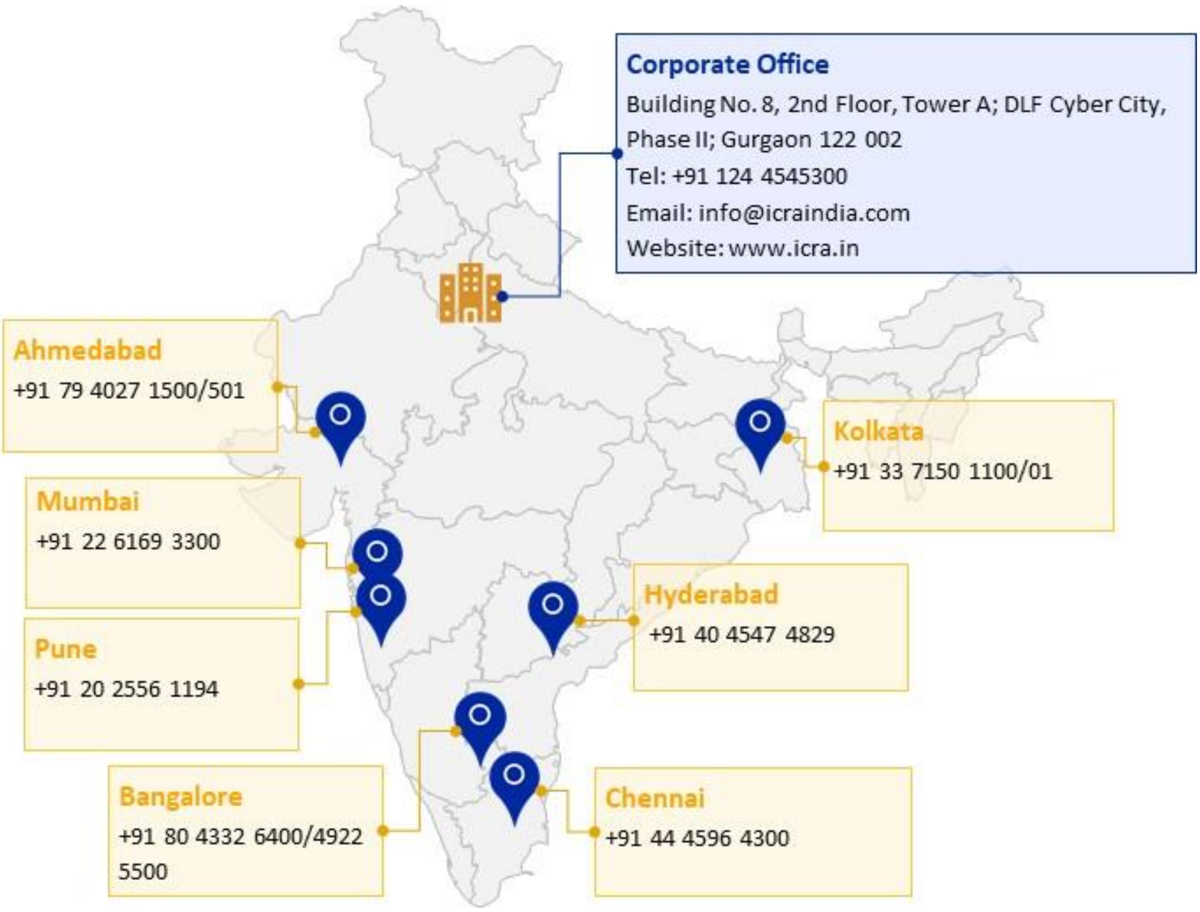

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