

## Divyasree NSL Infrastructure Private Limited

October 10, 2018

### Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based- Term Loan (Lease Rental Discounting)	1648.00	[ICRA]A-(Stable); Assigned
Fund Based- Term Loan (Construction Loan)	600.00	[ICRA]A-(Stable); Assigned
<b>Total</b>	<b>2248.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned a long-term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 2248.00-crore term loans of Divyasree NSL Infrastructure Private Limited (DNIPL or the company)<sup>1</sup>. The outlook on the long-term rating is Stable.

### Rationale

The assigned rating factors in the favourable business profile of DNIPL on account of strong position of its sole asset 'Orion' – the IT/ITES SEZ located in Gachibowli, Hyderabad. The asset's favourable location and development quality have resulted in 100% occupancy levels in the completed blocks comprising 3.61 million sq. ft. of leasable area. ICRA also notes that the lease rental discounting (LRD) loans of DNIPL have an escrow mechanism along with a 2-month DSRA of principal and interest which would take care of any interim vacancies or delays in remittance of rentals. The low average rentals in DNIPL's asset as compared to the prevailing market rates and investments made by tenants towards fit-outs also mitigate the vacancy risks to an extent. Further, ICRA takes into account that DNIPL has signed Agreement to Lease for nearly 100% of the area under-construction in blocks B3 and B4; with possession of B4 building given to the tenants.

ICRA's rating however, are constrained by the high leveraging through rental securitisation loans, with loan to annual rental income of 7.31 times, gearing of 6.39 times, total debt/ OPBDIT of 9.87 times and interest coverage ratio of 1.22 times as on 31<sup>st</sup> March 2018, thus limiting financial flexibility of the company. ICRA also takes into account the project implementation risks pertaining to building B3 and B8 with an overall leasable area of 1.72 million sq. ft., and which are expected to be completed by March 2020 and September 2021, respectively. The rating also takes into account the refinance risk associated with the construction loans for the under-construction blocks of B4, B3 and B8. The rating further factors in the single asset nature of the company and high tenant concentration with the top three tenants occupying 54% of the leasable area. ICRA also notes that the company had utilised proceeds from the top-up of its LRD loans to invest Rs. 800 crore in two group companies in FY2018; any similar outflow towards group companies going forward would be a key monitorable.

ICRA notes that the company has filed a scheme of arrangement for demerger of certain buildings, along with associated liabilities, to a group entity. On the scheme become effective, the leverage and coverage metrics of the company are not expected to change materially, although the scale of revenues will become nearly half of current level.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Outlook: Stable

The Stable outlook reflects ICRA's expectation that the established operating track record of the asset and competitive advantage in the form of lower than market rent rates will support occupancy and cash flow generation. The outlook may be revised to Negative in case of a sustained drop in occupancy level or if there is any increase in leverage. The outlook may be revised to Positive in case of faster than expected completion of construction and leasing of buildings B3 and B8.

## Key rating drivers

### Credit strengths

**Favourable asset profile:** The project is favourably located in in Raidurg, which is in close proximity to Gachibowli and Hi-Tech City, wherein there is healthy demand for commercial office space. The strong parentage, high quality of development, favourable location of the project and the competitive rental rates reduce the vacancy risks.

**Escrow mechanism in place with additional comfort in the form of DSRA:** The lease rental discounting loan has an escrow mechanism which prioritises debt repayment before any other utilization, along with adequate cushion between rental receipt and EMI due dates. In addition, the company also maintains DSRA equivalent to two month's EMI.

**Healthy pre-leasing status and future cash flow visibility:** The entire area in the under-construction blocks of B3 and B4 have been tie-up by way of Agreement to Lease thus providing visibility on the future cash flows. Further, block B4 is nearing completion and has been handed over to tenants for fitouts.

### Credit challenges

**High leveraging in the LRD loans and refinancing risk associated with construction loans:** The property is highly leveraged with LRD loans at 7.31x of the annual rental income from the project, resulting in limited financial flexibility. Further, the company has availed construction loans for construction of blocks B3, B4 and B8, which are to be refinanced.

**Investments in other group companies:** The company has invested Rs. 800 crore in other group entities, out of the surplus generated from top-up of the LRD loans during FY2018 and promoters loans of Rs. 100 crore.

**Exposure to construction risk, and market risk:** The company is constructing blocks B3, B4 and B8 of the project where it faces construction risk as well as market risk. Nevertheless, block B4 is nearing completion, and leasing agreements for blocks B3 and B4 are completely tied-up. However, construction and leasing are yet to start for building B8.

**Single asset nature of company along with high tenant concentration risk:** DNIPL owns a single asset, viz, the Orion project, and hence remains susceptible to any adverse changes in the demand supply scenario in the particular micro market. Moreover, the tenant concentration is high with 54% of the area occupied by top three lessees, thus exposing the company to market risk in case of any vacancy / non-renewal of lease. Nonetheless, this risk is mitigated by the profile of the tenants and the investments made by them towards fit outs.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Debt Backed by Lease Rentals](#)

## About the company:

DNIPL, incorporated on 10th November 2004 in Hyderabad, is a 50:50 joint venture between Shyamaraju & Company India Pvt Ltd (Divyasree Group) and Mandava Holdings Private Limited (holding company for NSL Group) to develop commercial office space for IT/ITES companies. DNIPL owns 40 acres of land at the old Mumbai Highway in Hyderabad, of which 26 acres has been converted into a Special Economic Zone (SEZ), called 'Divyasree NSL Orion'. The SEZ will house about 5.84 million sq. ft. of office space over a land area of 30 acres, while the balance 10 acres has been used for the development of residential space (villas and apartments). Out of the total 5.84 million sq. ft. of planned development, 3.61 million sq. ft. has been completed.

In FY2018, on a provisional basis, the company reported a net profit of Rs. 52.71 crore on an operating income of Rs.211.86 crore, as compared to a net profit of Rs. 3.98 crore on an operating income of Rs. 184.35 crore in the previous year.

## financial indicators

	FY2017	FY2018 (Provisional)
Operating Income (Rs. crore)	184.35	211.86
PAT (Rs. crore)	3.98	52.71
OPBDIT/OI (%)	75.85%	78.95%
RoCE (%)	12.22%	9.63%
Total Debt/TNW (times)	4.25	6.39
Total Debt/OPBDIT (times)	6.25	9.87
Interest coverage (times)	1.17	1.22

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

**Any other information: None**

### Rating history for last three years:

	Instrument	Type	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016 February 2016
					Oct 2018	Sept 2018			
1	Fund Based-Term Loan (LRD)	Long Term	1648.00	1587.00	[ICRA]A-(Stable)	-	-	-	-
2	Fund Based-Term Loan (Construction Loan)	Long Term	600.00	60.05	[ICRA]A-(Stable)	-	-	-	-
3	Fund Based-Term Loan	Long Term	Nil (Earlier 60.83 crore)	0.00	-	[ICRA]BBB+(SO) (Stable) ISSUER NOT COOPERATING; Withdrawn	[ICRA]BBB+(SO) (Stable) ISSUER NOT COOPERATING	-	[ICRA]BBB+(SO) (Stable)

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	Sept-17	NA	Sept-29	1200.00	[ICRA]A-(Stable)
NA	Term Loan 2	Sept-17	NA	Sept-29	200.00	[ICRA]A-(Stable)
NA	Term Loan 3	Sept-17	NA	Sept-29	200.00	[ICRA]A-(Stable)
NA	Term Loan 4	Sept-17	NA	Sept-29	48.00	[ICRA]A-(Stable)
NA	Term Loan 5	Sept-17	NA	June-19	100.00	[ICRA]A-(Stable)
NA	Term Loan 6	Sept-17	NA	Sept-20	175.00	[ICRA]A-(Stable)
NA	Term Loan 7	Sept-17	NA	Sept-21	325.00	[ICRA]A-(Stable)

Source: Divyasree NSL Infrastructure Private Limited

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## 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.

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For more information, visit [www.icra.in](http://www.icra.in)

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