

Shyamaraju and Company (India) Private Limited

April 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	203.18	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB (SO); Stable [Triple B (Structured Obligation); Outlook: Stable]
Total Facilities	203.18 (Rs. Two Hundred Three Crore and Eighteen Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating was earlier based upon nature of transaction which was bankruptcy remote in the nature and therefore cashflows only for Block A1 of Divyasree Technopark was considered against which rated LRD was raised. With the tenant vacating part of the space, debt servicing would be dependent upon cash flows from other blocks. Therefore, now, standalone risk profile of SRIPL is considered while assigning the rating.

The rating of the Lease Rental Discounting (LRD) facility of Shyamaraju and Company (India) Private Limited (SRIPL) continues to derive strength from satisfactory debt coverage indicators of company on overall basis despite part vacancy in Block A1 as some of the rental income was not discounted by company. The rating also derives strength from the long track record of promoters in the real estate business, satisfactory occupancy levels on overall basis leased out to tenants of repute and strong credit profile. The ratings, however, are constrained by inherent lease agreement renewal & occupancy risk, and vulnerability of cash flow to any decline in rentals and rise in interest rates. The rating takes note of FD of Rs. 14.7 crore maintained against rated debt to cover shortfall in debt repayments and deposit of another Rs. 10 crore with lender apart from DSRA of 3 months repayments which provides sufficient cushion in timely debt servicing even if it takes time for company to fill the vacant space.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in debt/rental to 5x

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Additional LRD loans taken against existing lease rentals deteriorating debt/rental income to more than 8x or moderation in liquidity for extending advances to group companies

Detailed description of the key rating drivers

Key Rating Strengths

Satisfactory occupancy level on overall basis with tenants of strong credit profile

As of December 31, 2020, SRIPL has completed commercial office space area of 2.58 msf of which 84% i.e. 2.18 msf of area is occupied by marquee tenants like Accenture, Capgemini, EY etc. SRIPL had built the Tech park building under built-to-suit specification for Accenture and Capgemini and derives comfort from long association of these tenants with the group.

Continuing satisfactory debt coverage indicators supported by structured waterfall mechanism and DSRA despite Accenture vacating part of the space in A1 Block against which the rated facility is raised

Debt/rental at overall company level continues to be satisfactory though moderated for the rated debt on account of the vacancy in Block A1. The debt servicing for the rated LRD loan is facilitated by the structured payment mechanism through an escrow account with prescribed waterfall mechanism backed by creation of DSRA of Rs.10 crore (~ 3.5 months debt servicing). In the absence of rentals for the vacant portion, the deficit in rentals is being funded out of the Rs.14.7 Cr fixed deposits (~10 months of shortfall EMI) kept by SRIPL with the lender (excluding DSRA). Also, company deposited additional Rs.10 crore with the lender during Q4FY21. As such, the comfort can be derived from the other blocks of the company which are relatively lower leveraged and with the surplus cash flows available from the same, company has the flexibility to raise additional LRD loans in case required.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Strategic Location of property

Divyasree Technopark is located in EPIP (Export Promotion Industrial Park) zone of Doddanekundi near to Whitefield area, which has become one of the most attractive investment hub in Bengaluru city. The location is dynamic with supply of IT parks, corporate offices and integrated residential townships with consistent absorption history.

Long track record of promoters in real estate business

SRIPL started as construction company till 1997 after which it commenced real estate business and has since then developed more than 19msf of area in commercial and residential segment and has another 4 msf of area under development.

SRIPL was promoted by Mr. P. Shyama Raju first generation entrepreneur with over 35 years of construction and development experience. Mr. Shyama Raju is now joined in the business by Mr. N. Bhaskar Raju and Mr. S. Umesh Raju who ably supports Mr. Shyama Raju in day to day operations of the Group. Some of the group companies include Divyasree NSL Infrastructure Private Limited, Divyasree Infrastructure Developers Private Ltd and Divyasree Tarbus Builders Private Ltd.

Key Rating Weaknesses

Vacancy and lease renewal risks

Vacancy risk of the property exists with part of the Block A1 being unoccupied for around a year. Further, lease renewal risk persists with the tenor of the loan being 15 years (last repayment on Nov'33) which is more than the existing lease termination date of September 2027. Timely leasing out of the vacant space and renewal of the existing lease will be critical from the credit perspective.

Vulnerability to cash flows to decline in rentals and rise in interest rates

Considering the impact of Covid19 on the commercial leasing activities and with many companies opting for work from home, companies may opt for re-negotiation in rentals going forward. Furthermore, the interest rate is floating and any rise in the same may lead to cash flow mismatches.

Liquidity: Adequate

SRIPL's liquidity is driven by consistent timely flow of rental income from properties by 7-10th of every month while debt repayments fall due at the end of month. All inflows are deposited in escrow account which is then utilized as per waterfall mechanism giving priority to debt repayments over corporate level expenses. However, high concentration risk persists with top 2 tenants occupying 80% of space and in case of vacancy by these tenants would lead to significant impact on liquidity. Company has maintained DSRA of 3 months on all LRDs. As on December 31, 2020, company had free cash balance of Rs. 58.4 crore and MF investment of Rs. 36.6 crore. SRIPL availed moratorium from March 2020 to August 2020 under RBI's Covid-19 regulatory package.

Analytical approach: The rating was earlier based upon nature of transaction which was bankruptcy remote in the nature and therefore cashflows only for Block A1 was considered. With tenant vacating part of the space, debt servicing would be dependent upon cash flows from other blocks. Therefore, standalone risk profile of SRIPL is considered.

Applicable Criteria

[Rating methodology for debt backed by Lease Rental Discounting \(LRD\)](#)

[Criteria on assigning Outlook and Credit watch to credit ratings](#)

[Liquidity analysis for Non-financial sector entities](#)

[Financial ratios- Non financial sector](#)

[CARE's policy on default recognition](#)

About the Company

SRIPL is the flagship company of the DivyaSree Group which has been promoted by Mr P Shyamaraju & Mrs. Arathi B Raju. DivyaSree Group is one of the leading developers in South India with strong presence in Bengaluru, Hyderabad, Cochin & Chennai. The group is into development of residential and commercial space, particularly for IT & ITES parks.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	324.07	332.30
PBILDT	161.61	208.40
PAT	39.89	50.91
Overall gearing (times)	1.66	1.49
Interest coverage (times)	1.42	1.96

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	Nov 2033	203.18	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	203.18	CARE BBB; Stable	1)CARE BBB (SO); Stable (01-Apr-20)	1)CARE BBB (SO); Stable (02-Apr-19)	-	1)CARE BBB (SO); Stable (12-Mar-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument – LRD Loan	Detailed explanation
A. Financial covenants	Min. Security cover of 1.50 times to be maintained during the tenor of the loan.
B. Non financial covenants	The borrower shall deposit all the receivables from the property in the designated escrow account.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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