DBG Estates Private Limited

January 14, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating1	Rating Action
Long Term / Short Term Bank Facilities	475.00	CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable/ A Three Plus)	Assigned
Total Bank Facilities	**475.00 (Rs. Four Hundred Seventy-Five Crore Only)**		

*includes following sublimits: Letter of Credit (Sight / Usance) – Rs. 50 crore; Bank Guarantee (Performance / Financial) – Rs. 10 crore

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to DBG Estates Private Limited (DBGEPL) takes into account the experience of strong promoters, strategic location of the project, premium construction quality (Grade A warehouses), tie-up of more than 50% of the total capacity with tenants and presence of adequate security structure and escrow mechanism.

The ratings are constrained by competition from the existing and upcoming warehouse facilities in the micro market, any unperceived delay in execution of projects leading to delay in leasing of warehouses, and high tenant concentration.

Rating Sensitivities

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

- Significant further progress of the project as per schedule along with over 80% of the constructed area leased out could be positive for the ratings
- Track record of refinancing the project term loan/s with LRD loans accompanied with reduction in interest cost could be positive for the ratings.

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

- Delays in project execution and/or significant escalation in project costs could be negative for the rating
- Any delays in receipt of monthly lease rentals from lessees translating into cash flow mismatches for DBG Estates could be negative for the rating

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and Resourceful Promoters (Welspun Group)

DBG Estates Private Limited (DBGEPL) was incorporated on December 22, 2008 and is principally engaged in the business of real estate activities with owned or leased property. The company is a part of Welspun group, a USD 2.3 BN diversified conglomerate, promoted by Mr. B.K. Goenka and Mr. R.R. Mandawewala. DBGEPL is ~80% held by Mr B.K. Goenka and Ms. Dipali Goenka. The balance 20% is held by Welspun One Logistics Parks Pvt Ltd (WOLP), a SEBI registered Category II Alternate Investment Fund (AIF) offering investment opportunity in the warehousing space to HNIs, family offices, domestic institutions and NRIs. The Welspun Group is one of India's fastest growing conglomerates, registering a CAGR of 30% over the last decade. The Group was established in the year 1985 to set up a texturizing unit in Palghar, Dist. Thane in the State of Maharashtra. Thereafter, the Group has made a series of diversification /expansion and today has a presence across diversified business verticals viz - Pipes, Home Textiles, Infrastructure and Steel. In the first two verticals, it is a fully integrated player. Welspun is also among the recognized world leaders in the fields of Line Pipes and Home Textiles. The Group has a strong foothold in more than 50 Countries and employs over 24,000 people.

Welspun group has infused Rs 71 crore by way of land (historic value) as their contribution towards equity in DBGEPL. The market value of said land is approx. Rs. 311 crore. In addition, WOLP has infused Rs. 77 cr as equity in DBGEPL in April 2021.

Strategic Location of the Project; Less variation expected in rentals due to strong consumption led warehousing demand in Bhiwandi

DBGEPL owns a 110.7 acres land parcel in Bhiwandi near Mumbai and is currently developing 14 warehouses of "Grade A" quality with potential carpet area of ~2.56Mn sft. (Project). The Project is located in the Lonad micro-market, which forms a part of Bhiwandi warehousing cluster. The site is situated at a distance of 61kms of Jawaharlal Nehru Port. Further, the Project site is in proximity of various industrial areas of Maharashtra Industrial Development Corporation (MIDC). With the National Highway 160 being just 4.6km away, the location has easy access to other cities in Maharashtra such as Thane, Nashik, Sinnar, Shirdi, Ahmednagar, Daund, Baramati etc. The key attraction of Bhiwandi as a warehousing and logistics hub is the close proximity to

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

the densely populated cities of Mumbai, Thane and Navi Mumbai. Lonad area has limited existing facility of Grade A warehousing (12%) leading to occupancy rates of over 90% in the area. The large E-commerce, FMCG and third party logistics (3PL) companies, as a policy tend to lease space only in premium quality Grade A warehouses, which meet their high operational standards. This in turn translates into high occupancy rates and less variation in expected rentals for the lessors.

More than 50% capacity of total leasable area already tied up in initial stage of construction
DBGEPL has entered into Letter of Intent (LOI) agreement with 3 clients which are well-known supply chain and logistics players. The tied up capacity forms around 58% of the total area of 2.56 million square feet and has lock-in period of 3-5 years as per LOI assuring cash flow visibility for medium term.
Additionally, when the construction for all warehouse blocks is completed and subsequently additional space is leased out, it will ensure increase in rent receipts and further strengthening in company's debt servicing capability.

Presence of escrow mechanism along with DSRA provides comfort
The Lenders have been secured with charge over land, admeasuring ~ 110.7 acres (including development rights/FSI/saleable area) at the project site. Also, the term sheet mandates that all proceeds / internal accruals of the Project received from lease rentals, sale proceeds, lease deposit, common area charges, parking charges, all refinancing proceeds received by the Borrower, any other receipts for operational warehouses, etc. shall be immediately upon receipt deposited into an escrow account maintained with Yes Bank.- Additionally, the lending terms provide for creation of a Debt Service Reserve Amount (DSRA), equivalent to 1 quarter interest and principal instalment. The DSRA has to be funded one month before SCOD (30 June 2024), and lender's lien is to be marked on the same.

Key Rating Weaknesses

Competition from upcoming warehouse facilities in the micro market.
In Bhiwandi area, there are around 10 large warehousing projects under construction, which are expected to become operational in the next few years. These are spread over 681 acres and will add around 17.9 million sft to the existing 176 million sft of capacity. CARE Ratings notes that apart from DBG Estates' 2.56 million sft upcoming capacity, there are 2 other Grade A warehousing projects which will add 2.1 million sft. Such large incremental capacities could pose occupancy risk and pricing pressure in future, especially considering that the large E-commerce and 3PL players have already leased space in the area. Any future economic slowdowns or additional capacities over and above those under construction at present could translate into pressure on rentals for incumbent players.

Nascent stage of construction -any unperceived delay in execution could delay revenue generation
The total envisaged project cost is Rs.726 crores, to be funded by Rs.475 crores of debt, Rs.175cr of promoter contribution and the balance Rs.76 crores, by a combination of security deposits receivable/ LRD top ups/sponsor contribution. The total area to be constructed is 2.56 million sft over 110.7 acres. The scheduled commercial operations date (SCOD) of the project is estimated as June 30 2024, and as of 30 Nov 2021, only 18% of the total area had been constructed. Any unexpected delays in project execution could therefore result in postponement of anticipated future lease revenues, and result in cash flow mismatches. CARE Ratings however, notes that phase wise construction and leasing strategy being deployed in this case would result in significant revenue generation even before the project is completed. Additionally, phase-wise refinancing of the project term loan with LRD loans will help bring down the overall interest cost.

Lower tenure of lease agreements vis-à-vis project term loan
The Rs.475 crore term loan availed in Q3FY22 has a three year moratorium and 10 year repayment period. On the other hand, based on the LOIs entered into by DBGEPL with prospective lessees, the lease agreements are likely to be for around 5 years with lock in period of around 3 years. This exposes the company to risk of cash flow mismatches in case lessees do not renew the lease agreements upon expiry and the company is unable to promptly lease the vacated space. CARE Ratings however notes that the considerable expense typically incurred by lessees in fitouts results in stickiness in the relationship, thereby mitigating this risk to some extent.

High tenant concentration
LOIs entered into with 3 lessees as on date account for 58% of proposed area. Similarly, for the remaining area as well, if the number of lessees are few, the high revenue concentration from them could lead to risk of cash flow mismatch in the event of delay in receipt of monthly rentals. While the strong credit profiles of large companies in the e-commerce and logistics space mitigates this risk, CARE Ratings believes that nonetheless the risk persists given the lack of granularity in the lease income.

Liquidity: Adequate
CARE Ratings expects that the cash flows by way of lease rentals to be adequate to meet debt servicing requirements of DBGEPL. High occupancy rates are very likely, which will ensure that there are no liquidity mismatches. The peak debt stipulation of Rs.350cr by the lender also ensures that the project debt gets partly refinanced in a phase wise manner even before the completion of the project, thereby reducing interest cost.
Additionally, promoter group company MGN Agro Properties Private Limited has provided a shortfall undertaking to the lender Yes Bank. DSRA equivalent to one quarter of debt servicing, to be funded before scheduled commercial operations date, provides added liquidity support.

Analytical approach: Standalone

Applicable Criteria
CARE's Policy on Default Recognition
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Financial ratios – Non-Financial Sector
Rating Methodology – Construction Sector
Liquidity Analysis of Non-Financial Sector Entities
CARE's methodology for Project Stage Companies
CARE's methodology for debt backed by lease rentals
Complexity Level of Rated Instruments

About the Company
DBG Estates Private Limited (DBGEPL) was incorporated on December 22, 2008 and is principally engaged in the business of Real estate activities with owned or leased property. The company is a part of Welspun group, a USD 2.3 BN diversified conglomerate, promoted by Mr. B.K. Goenka and Mr. R.R. Mandawewala. DBGEPL is ~80% held by Mr B.K. Goenka and Ms. Dipali Goenka. The balance 20% is held by Welspun One Logistics Parks Pvt Ltd (WOLP).
DBGEPL owns a 110.7 acres land parcel in Bhiwandi near Mumbai and is currently developing 14 warehouses block with "Grade A" modern warehousing facility with potential carpet area of ~2.56Mn sft.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22
Total operating income	0.00	0.00	NA
PBILDT	-0.20	-1.08	NA
PAT	-0.19	-1.07	NA
Overall gearing (times)	0.01	0.67	NA
Interest coverage (times)	0.00	0.00	NA

A: Audited; NA: Not available

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
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	475.00	CARE BBB; Stable / CARE A3+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	475.00	CARE BBB; Stable / CARE A3+				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

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

Sr. No	Name of instrument	Complexity level
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

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

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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