

DSR SR Prime Spaces LLP

May 21, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	300.00	CARE BB+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of DSR SR Prime Spaces LLP (DSRSR) is constrained by the slow construction progress w.r.t residential project 'The World' resulting in execution risk, with 79% of the total project cost still to be incurred as of March 31, 2024. Additionally, there is a high reliance on customer advances to fund the remaining portion of the project and to meet debt repayment obligations, moderate saleability risk and inherent cyclical nature of real estate industry.

The rating, however; derives strength from experienced promoters with long presence in the real estate sector, major regulatory approvals in place, favourable location of the property and healthy bookings and advance received despite project construction being at its early stage.

Rating sensitivities: Factors likely to lead to rating actions.

Positive Factors

- Healthy Construction progress of 60% or more in the coming years.
- Completion of construction of project within the prescribed timelines along with sales of more than 70% in the "The World" project
- Efficient collection from the sold units and sales of the remaining unsold area

Negative Factors

- Delay in project execution or slowdown in sales velocity leading to unsold inventory.
- Cost overruns or unforeseen delays in the completion of the project beyond the Real Estate Regulatory Authority (RERA) completion due date.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the entity will continue to benefit from the extensive experience of the promoters in the industry and the healthy booking status for the ongoing project.

Detailed description of the key rating drivers:

Key Weaknesses

Project execution risk elevated by slow construction progress:

The company is developing a high-rise luxury residential project named "The World," with a total saleable area of approximately 31 lakh square feet and consist of 307 units (developer share). Regulatory approvals, including RERA registration, are in place. The company launched the "The World" project in June 2022 and plans to complete it by July 2027. However, as of March 2024, progress has been slower than expected, with only 21% of the costs incurred nearly two years after the project's launch. Consequently, 79% of the total project cost remains to be incurred as of March 31, 2024, indicating a significant execution risk. Nevertheless, this risk is partly mitigated by the promoters' extensive experience in real estate business, having successfully executed over 50 residential and commercial projects in southern India.

Further, timely collection from the area sold, no cancellations and ability to achieve new sales shall remain crucial. Hence, the projects remain vulnerable to funding risk, as any delay in sales, lower than envisaged sales momentum may affect the project completion timelines.

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

Balance project execution highly dependent on customers advances

The project is being developed at a project cost of Rs.2402 crore funded through customer advances of Rs.1928 crore, debt of Rs.300 crore and rest through promoter contribution. Around 80% of the project cost is being funded through customer advances exhibiting high reliance on customer advance to fund the project, and thus timely receipt of the same will be crucial for its project progress. However, comfort can be drawn that the project was able to sell around ~58% of the inventory (area wise) as on March 31, 2024 i.e. within ~22 months of launching the project for sale, which reflects favorable response from the market.

Susceptibility of the real estate market to economic cycles

Real estate sector is highly susceptible to economic cycles. Health of an economy in terms of GDP, employment data, manufacturing activity, prices of goods, etc. affects the value of real estate in such a way that when economy is sluggish real estate sector is affected in a similar way and vice versa.

Constitution of the entity as partnership firm with inherent risk of withdrawal of capital:

Constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency which might affect its capital structure. Moreover, partnership firms have restricted access to external borrowing which limits their growth opportunities to some extent.

Key Strengths**Experienced promoter with long association in the real estate sector.**

The main promoters owns 50% of the shares belongs to the DSR Group, who has a long track record of around three decades in the real-estate development in Bangalore, Hyderabad, and Chennai. The Group has completed several residential and commercial projects, encompassing 8.95 million sq ft (msf) of constructed area, which reflect its strong project-execution capabilities. Further, the group has significant land bank in its possession for planning future projects, which it can also utilize to raise funds if required. The promoters have executed most of the projects in the name of DSR Infrastructure Private Limited, however their experience in the same field of business would help DSRSR to complete this ongoing project as projected.

Healthy booking status resulting in moderate saleability risk coupled with satisfactory collection efficiency

The project was launched for sale in June 2022 and in the span of nearly 22 months of its launch i.e. till March 2024, the company has sold 181 units out of total 307 units which is equivalent to around 59% of the total units of the project. Given healthy booking received in its early stage of execution, the months to sell unsold inventory stands moderately low at 12-24 months as against balance construction period of 36 months. The committed customer receivables cover stands satisfactory at 53% of the total sanctioned debt of Rs. 300 crore and total pending cost of Rs ~1900 crore as on March 31, 2024. Out of total sales booked, the company has received 30% of the amount, which indicates satisfactory collection efficiency.

Favourable location of the project:

The ongoing residential project is coming up in one of the prime area of Hyderabad i.e. Jubilee Hills which is known for home to celebrities, politicians, businessmen, and professionals, drawing an elite crowd. And easily accessible with proximity of super market stores, hospitals, educational institutes, shopping malls, and metro stations and other basic and essential requisites. The ongoing residential projects are equipped with all the modern facilities/amenities which include clubhouse with gymnasium, indoor games, banquet hall, swimming pool etc. Some of the prominent developers, have launched large scale apartment projects in this location and nearby. It is located in proximity to the international airport and good connectivity Financial district (emerging and extended IT/ITES corridor of the Hyderabad).

The project has connectivity upto 10 schools within a distance of 5 km. Also, the project is well connected with other parts of the city

Liquidity: Adequate

The liquidity position is adequate marked by sold receivable of Rs 1163 crore as on March 31, 2024 with a cash balance of Rs 4.47 crore as on March 31, 2024. Project financing shall take care of the interest during the construction period while principle obligation is after a moratorium of 2 years. The principal repayment will commence from September 2026. This apart, the company is also required to create DSRA equivalent to 3 months principal and interest repayment before final disbursement thereby providing additional comfort. DSRSR has undrawn bank lines of Rs.200 Crore as on May 08, 2024. The cashflows of the project are also supported by unsecured debt from the promoters.

Assumptions/Covenants: NA

Environment, social, and governance (ESG) risks: Nil

Applicable Criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Rating methodology for Real estate sector](#)

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Realty	Realty	Residential, Commercial Projects

Hyderabad based LLP firm M/s DSR SR Prime Spaces LLP (DSRSR) was established in 2019 and is promoted by two families i.e. Tirupathi Anagandula Reddy & Family and Sudhakar Devireddy Reddy and their family members. However, the operations are looked after Sudhakar Devireddy Reddy and their family members. The firm was established as a SPV to develop a luxury real estate project "The World", which is under construction stage under Joint Development Agreement (JDA). Mr Sudhakar Devireddy Reddy and their family members has other entities in the real estate business, and owns DSR Group based out at Hyderabad. The DSR group of companies, is a real-estate developer in the residential and commercial space with presence of more than three decades in the Bengaluru, Hyderabad, and Chennai real-estate market. The Group has completed several residential and commercial projects, encompassing 8.95 msf of constructed area.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	0.00	0.00
PBILDT	2.97	0.33
PAT	0.09	0.31
Overall gearing (times)	0.34	NM
Interest coverage (times)	1.05	12.32

A: Audited; Note: 'the above results are latest financial results available', NM: Not meaningful.

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	June 2027	300.00	CARE BB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	300.00	CARE BB+; Stable				

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA
Annexure 4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

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About us:

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Disclaimer:

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