

Press Release

Brickwork Ratings assigns BWR BBB-(SO) for Divyasree Infrastructure Projects Pvt. Ltd's secured redeemable Non-Convertible Debentures Issue of ₹125 Crore with tenor of 5 years

NCD Issue Rating: BWR BBB- (SO)

Outlook : Stable

Brickwork Ratings (BWR) has assigned BWR BBB-(SO) [Pronounced BWR Triple B Minus (Structured Obligation)] Rating for Divyasree Infrastructure Projects Pvt. Ltd secured NCD Issue of ₹ 125 Cr with a tenor of 5 years. 'BWR BBB-' stands for an instrument that is considered to offer **Moderate** credit quality / safety in terms of timely servicing of principal and interest obligations.

The rating has factored, inter alia, experience of the promoters in commercial real estate segment, the securities and the guarantees proposed to secure the NCD issue. The rating is however constrained by Project risk and risk of sustainability of property prices and margins.

BWR has essentially relied upon the information/clarification provided by the Issuer, Term sheet outlining the structure of the deal and audited financial results and projections given by the Issuer.

Divyasree Infrastructure Projects Pvt. Ltd., the Issuer of the NCD, is part of the Bangalore based Divyasree Group which was incorporated in 1997 by its promoter, Mr. P. Shyama Raju. Over the last nine years the company has developed more than 3.5 mn sq ft of commercial space (IT Park, SEZ's, Office space etc.) for leading global companies. The commercial segment contributed around 87% of the total revenue of the company.

The company plans to raise ₹125 Cr by way of secured redeemable NCD with a tenor of five years. The proceeds will be used toward working capital for the Technopolis project and toward the development of landlord's share of about 900,000 sq ft of built-up area in a Joint Development project 'Technopark'.

The NCD is secured by a second charge created on the Technopolis project, pledge of 100% shareholding of promoters in the company, corporate guarantee from the company and promoters, charge over an acceptable Escrow mechanism in respect of all cash flow from the project to be routed through a Designated Account.

Technopolis Project is a Joint Development Project to be developed over 54 acres land with a built-up area of 1.5 mn sq ft of commercial space, 0.7 mn sq ft of villa space and 1.2 mn sq ft of residential apartment space. The project is situated near the Outer Ring Road, off Old Airport Road, Bangalore and will be executed in two phases over a period of six years. The project is expected to be launched by April, 2011. Project cost is estimated to be around ₹893Cr, and the company expects a sales of around ₹1809 Cr from this project. A construction finance loan of ₹ 275 Cr has been sanctioned by HDFC Bank in February 2011 for this project.

The NCDs are being offered at an annual coupon rate of 10 % for a tenor of five years. The NCDs will be redeemed at a premium.

On a consolidated level, the Divyasree Group witnessed a decline of around 16 % in net sales from ₹195 Cr in FY 09 to ₹164 Cr in FY10. This was largely due to adverse market conditions. For FY11, the company expects to record a positive YoY growth in its top line.

The Outer Ring Road area around Sarjapur Junction has been reportedly building up a little oversupply of ‘Grade A’ commercial space and premium villa space. The Technopolis project has a gestation period of about six years, hence the sustainability of the prices and the margins and the timely completion of each phase of the project remain the risk factors for this NCD.

The pre-launch interest shown by the customers in the villa units of the Technopolis project have been encouraging. Also, about 3/4th of the commercial space in Technopolis and 1/3rd of the commercial space in Technopark have already been signed for lease by reputed companies indicating that the project is likely to generate adequate future cash flow.

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