Rating Rationale for Divyasree Infrastructure Projects Pvt. Ltd's secured redeemable Non-Convertible Debentures Issue of ₹ 125 Crores 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.

Background

Divyasree Infrastructure Projects Pvt. Ltd. ("Issuer") is part of the Bangalore based Divyasree Group. Divyasree Group, started in the year 1997, is one of the reputed Bangalore based real estate developer. 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.). The leased commercial properties portfolio includes clients such as Accenture, Google, Oracle, Airtel, Dell, E&Y, Sun Guard, Mphasis, Convergys, UBS etc. Divyasree has a dedicated construction division for execution and delivery of all projects (contract & development). It has over 175 employees with experience ranging from design & planning to project execution. Some of its renowned commercial spaces include Divyasree Chambers, Divyasree Towers, Divyasree Greens in Bangalore and UBS Campus, Convergys Campus in Hyderabad. The commercial segment contributed around 87% of the total revenue of the company.

Management Profile

Mr. P Shyama Raju, CMD, is a commerce graduate and has a long experience in real estate industry. Mr Bhaskar Raju, Executive Director, has more than 15 years of experience in construction industry. He is a Mechanical engineer by qualification and has executed several projects in Bangalore and other cities in South India. Mr. Santosh Martin, CEO, has around 11 years of work experience and has earlier worked as a National Director at real estate services firm Jones Lang La Salle, and was also a key member of real estate service department at CB Richard Ellis in Bangalore.

Project Details

Divyasree Technopolis project is to be developed over 54 acres land, which will include both residential and commercial property. The project will have 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 will be executed in two phases over a period of six years. Out of 54 acres of land allocated to this project, 25 acres of land is owned by Divyasree and the rest is in the form of JDA with the respective landowners. The project is situated near the Outer Ring Road, off Old Airport Road, Bangalore. Location wise, the project is in close proximity to Whitefield-IT hub. Regulatory approval for first phase of the project is in final stages. The project is expected to be launched by April, 2011. An Expenditure of ₹163 has already been incurred on the project, of which ₹106 Cr was toward land payments and ₹57 Cr toward pre-development expenses. Project cost is estimated to be around ₹893 Cr, and the company is expecting a sales of around ₹1809 Cr from this project.

The NCD Issue & Its Redemption

The NCD is being offered at an annual coupon rate of 10 % for a tenor of five years. The NCDs will be issued in one or more tranches as follows:

1. ₹ 70cr upon commencement of construction, completion of due diligence & compliance with conditions precedent
2. ₹25cr at the end of 3 months from 1st tranche
3. ₹30cr at the end of 3 months from 2nd tranche OR sale of 0.1 mn sq ft of villas at a min avg. price of Rs. 8000 per sq ft whichever is earlier.

Out of the total NCD issue, 18% will be used toward working capital for the project and 82% toward general corporate purpose, more particularly toward construction of landlord's share of about 900,000 sq ft of built-up area in a different project 'Technopark'. The escrow account will be opened wherein all the sales proceeds, and amount received with respect to the project will be deposited and managed by the escrow agent, HDFC Bank Ltd.

The NCDs will be redeemed at a premium. There will be a lock-in period of three years from the date of first allotment, and during such period the debenture holder shall not get any distribution other than the coupon payments. Further, the company has an option to call outstanding NCDs anytime between 48 – 54 months from the date of allotment.

Security

The NCD is secured by a second charge created on the 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.

Financial Performance

The revenue from the Technopolis project is estimated at ₹1809 Cr over FY12 to FY16. A construction finance loan of ₹ 275 Cr has been sanctioned by HDFC Bank in February 2011 for this project.

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. PAT increased from - ₹3 Cr in FY09 to ₹4 Cr in FY10 registering a growth of about 260% on y-o-y basis. This was due to decrease in land & construction cost by 26% in FY10 compared to FY09. Total debt decreased by 2% from ₹854 Cr in FY09 to ₹834Cr in FY10, which resulted in D/E ratio to drop from 1.55 in FY09 to 1.51 in FY10. Interest coverage ratio stood at 1.72 in FY10 as compared to 1.56 in FY10. Current ratio was 0.99 in FY10 and 1.54 in FY10.

Risk Factors

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.

Anchor tenants have been signed for a portion of the Technopolis and the Technopark commercial space. The tenancy agreements for the balance of the space are yet to be tied up.

Rating Outlook

The pre-launch interest shown by the customers in the villa units of the Technopolis project have been encouraging. Also, about $3/4^{th}$ of the commercial space in Technopolis and $1/3^{rd}$ 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.

Analysts	Media
Nishant Anshul, Lead Analyst nishant.a@brickworkratings.com **Sumit Pol,** Co-Analyst sumit.pol@brickworkratings.com	**Anitha G** media@brickworkratings.com **Relationship Contact** **K N Suvarna** **Senior VP – Business Development** kn.suvarna@brickworkratings.com
Phone: 1-860-425-2742	

Brickwork Ratings (BWR) has adopted SEBI's standardized Rating Symbols and their definition advised vide SEBI circular CIR/MIRSD/4/2011 dated June 15,2011, with effect from June 21, 2011. While there is no change in the Rating symbol as a consequence to the above, for the amended definition of the Rating, please refer to http://www.brickworkratings.com/scale.html. It is clarified that the said change in the definition should not be construed as a change in the Rating.

Key Financials for Divyasree Group (Consolidated)

Annexure I: Balance Sheet

₹ Crore

As on March 31	2010	2009	2008
SOURCES OF FUNDS			
Paid -Up Capital	19	19	19
Reserves	532	527	531
Networth	**551**	**546**	**550**
Secured Loan	798	818	497
Unsecured Loan	35	36	40
Total Borrowed funds	**834**	**854**	**537**
Net Deferred Tax	8	11	9
APPLICATION OF FUNDS			
Net Fixed Assets	508	498	350
Current Asset, of which	**870**	**867**	**727**
Cash & Bank Balances	*32*	*100*	*74*
Current Liabilities & Provisions	**532**	**404**	**360**
Net Current Assets	337	463	366

Annexure II: Abridged Profit and Loss (Consolidated)

₹ Crore

As on March 31	2010	2009	2008
Income	**164**	**195**	**142**
Total Expenses	96	126	110
EBITDA	68	69	32
Depreciation	30	31	17
Interest	39	44	14
PBT	2	2	22
Tax	-2	4	11
PAT	**4**	**-3**	**10**

Annexure III: Ratio Analysis

	2010	2009	2008
Debt Equity Ratio (x)	1.68	1.65	0.98
Interest Coverage (x)	1.72	1.56	2.29
Debt-Service coverage ratio (x)	2.67	1.09	1.50
Net cash accruals to total debt (x)	0.04	0.03	0.05
Current ratio (x)	0.99	1.54	2.02
Return on capital employed (%)	3%	3%	1%
Profitability margins (%)	3%	-1%	7%
Networth	551	546	550