March 27, 2023

Simpliwork Offices Pvt Ltd: Rating Upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	104.00	104.00	[ICRA]A (CE) (Stable); Rating upgraded from [ICRA]A-(CE) (Stable)
Total	**104.00**	**104.00**	

Rating Without Explicit Credit Enhancement	[ICRA]BBB+

**Instrument details are provided in Annexure-I*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The rating of [ICRA]A (CE) (Stable) for the long-term loans of Simpliwork Offices Pvt Ltd (SOPL) is based on the strength of the corporate guarantee provided by Sattva Developers Private Limited (SDPL; rated [ICRA]A+ with Stable outlook), for the rated facility. The rating upgrade takes into account the improvement in the credit profile of the guarantor. The upgrade in rating of guarantor factors in the growth of lease rental income, driven by steady addition of commercial leasing space, while maintaining adequate occupancy levels. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, SDPL.

Adequacy of credit enhancement

The above rating of SOPL takes into account the corporate guarantee provided by SDPL to the borrowing programme of SOPL. The guarantee is irrevocable, unconditional and covers the entire amount of the rated instrument. Given these attributes, the guarantee provided by SDPL is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]A (CE) against the rating of [ICRA]BBB+ without explicit credit enhancement. If the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument. The rating of this instrument may undergo a change in a scenario, whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- *The entire lease rental cash flows from the tenants in the properties to be deposited in the designated escrow account(s).*
- *Debt Service Reserve Account (DSRA) of one month of interest plus principal to be maintained.*

Key rating drivers and their description

Credit strengths

Corporate guarantee provided by SDPL; improvement in credit profile of the guarantor – The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by SDPL. The rated instrument does not involve a structured payment mechanism. The rating upgrade is driven by the improvement in the guarantor's credit profile, on the back of growth in lease rental income, driven by steady addition of commercial leasing space, while maintaining adequate occupancy levels.

Extensive experience of Sattva Group, in the real estate industry –Sattva Group, holds 55% of the shareholding of SOPL as of December 31, 2022. The Group has extensive experience across sectors like real estate, trading, hospitality and education. The key managerial personnel of the Group are also members on the board of directors of SOPL. The Sattva Group is one of the leading players in the Indian real-estate market with strong brand recognition and established track record of more than 36 years.

Credit challenges

Modest financial risk profile – SOPL is currently in growth phase and has a modest scale of operations with area under management of close to 3.0 msf, as of December 31, 2022. The total leasable area is expected to grow to around 3.5-3.7 msf, by March 31, 2023. The company's operating profitability levels remain modest currently, due to ramp-up phase of new centres. Nevertheless, going forward, the profitability levels are expected to improve with stabilization of rentals from new centres and growing proportion of stabilized matured centres. Further, company is exposed to high client concentration risk with top three clients accounting for around 54% of the leased space and 56% of the monthly inflows as of December 31, 2022.

Timely lease execution for the growth plans – The company has substantial growth plans in the near-to-medium term, in relation to its present scale of operations. Ability to timely enter into lease agreements with favourable terms and mobilise adequate funds for meeting upfront capex requirements would be a key monitorable**.**

Liquidity position: Adequate

For the guarantor (SDPL): Adequate

The Group witnessed healthy rental collection efficiency from its existing tenants. The annualised rental receipt is expected to reach over Rs. 1,300 crore in FY2023 and is likely to steadily improve in the coming years. Coupled with adequate inflows from the residential and contract segment, the cash from operations are estimated to be sufficient to meet all the operational and debt servicing requirements. The presence of undrawn LRD debt and available LRD top-up potential in the existing commercial projects provide further liquidity support.

For the rated entity (SOPL): Adequate

The liquidity profile of SOPL is adequate. The debt repayment obligation can be comfortably serviced from estimated cash flow from operations and free cash balance. Funding for capital expenditure is expected to be met through a combination of security deposits, internal accruals and external funding. ICRA expects that the company will be able to access funding support from the investor group in case of short term cash flow mismatches.

Rating sensitivities

Positive factors – The rating might be upgraded if there is an improvement in the scale of operations backed by healthy occupancy levels and improvement in the coverage metrics while maintaining comfortable leverage. The rating could also be upgraded in case of any upgrade in the credit profile of the guarantor, SDPL.

Negative factors – The rating could be downgraded in case of material decline in occupancy levels or significant increase in indebtedness resulting in weakening of debt metrics on a sustained basis. Also, any deterioration in the credit profile of guarantor or any weakening of linkages with the guarantor SDPL could also put pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Approach for rating debt instruments backed by third-party explicit support
Parent/Group support	Group Company: Sattva Developers Private Limited The assigned rating draws comfort from the unconditional and irrevocable guarantee extended by the parent company
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SOPL.

About the company

SOPL, which was incorporated on December 2017, provides build-to-suit, customized, fully furnished managed offices in Grade-A commercial buildings for medium and large enterprise customers. As of March 31, 2022, Sattva Group holds 55% of the shareholding of the company. The company has an area under management of close to 3.0 msf, as of December 31, 2022, of which 83% is already occupied. The company has taken up spaces in commercial building developed by developers like DLF, Tata Realty and Infrastructure Limited, Brigade, Prestige, Sattva Group, Panchshil Realty Group, Purvankara and MyHome Group. Some of the key clients of SOPL include DE Shaw, Infosys, EY, Siemens, Mastercard, Sterlite etc.

About the guarantor

Sattva Developers Private Limited (SDPL) is the flagship company of the Sattva Group. The Group is currently being managed by Mr. Bijay Kumar Agarwal who is the Managing Director of the Group. The Group is one of the leading real estate developers in the Bangalore real estate market and has completed more than 65.7 million square feet of development in the past 36 years of its existence. The Group is currently executing residential projects with saleable area of around 5.3 msf, mainly located across Bangalore and Hyderabad. The Group currently has a sizeable commercial real estate portfolio, generating annualised committed rental inflows of Rs. 1,127 crore as of March, 2022. The commercial properties of the Group which are located in prime locations in Bangalore and Hyderabad have witnessed high occupancy levels and house many reputed tenants such as like JPMC, Microsoft, Novartis, State Street, among others.

Key financial indicators (audited)

SOPL	FY2021	FY2022
Operating income	205.5	285.2
PAT	-37.1	22.2
OPBDIT/OI	7.8%	22.0%
PAT/OI	-18.0%	7.8%
Total outside liabilities/Tangible net worth (times)	-7.1	-12.9
Total debt/OPBDIT (times)	9.1	2.8
Interest coverage (times)	0.6	4.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore
Source: SOPL; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 27, 2023	Mar 31, 2022	Dec 04, 2020	-
1	**Term loans**	Long term	104.0	52.3	**[ICRA]A (CE) (Stable)**	**[ICRA]A- (CE) (Stable)**	**[ICRA]A- (CE) (Stable)**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	Dec 2019	NA	Feb 2025	104.00	[ICRA]A(CE) (Stable)

Source: Company

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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