

June 28, 2022

Salarpuria Properties Private Limited: Rating upgraded to [ICRA]A+ (Stable)

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|-----------------------------------|----------------------------------|--|
| Fund-based -Term Loan | 91.00 | 85.00 | [ICRA]A+ (Stable); Rating upgraded from [ICRA]A (Stable) |
| Fund-based - Working Capital Facilities | 91.00 | 141.00 | |
| Non-fund Based-Working Capital Facilities | 84.37 | - | |
| Unallocated | 0.50 | 40.87 | |
| Total | 266.87 | 266.87 | |

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade takes into account the growth in lease rental income of the Salarpuria-Sattva group (“the Group”), driven by steady addition of commercial leasing space, while maintaining adequate occupancy levels. The occupancy in the commercial leasing portfolio of 13.8 million square feet (msf) was 92% as of March 2022, improved from 91% as on November 2020 for 11.3 msf of leasable area. The Group is expected to complete another 4.06 msf commercial development by end of FY23. Furthermore, lower-than-expected debt levels has led to improvement in leverage metrics for the Group. Total debt (including construction finance and debt in residential segment) by annualised rental income is estimated to be around 6 times by end of FY2023.

The rating draws comfort from the established position of the Group in the real estate market with track record of more than 36 years and development of over 65.7 million square feet (msf) of built-up area in both commercial and residential segments. Furthermore, comfort is also derived from continued strong financial flexibility and liquidity profile of the Group, aided by moderate leveraging against the rental income portfolio and availability of undrawn, sanctioned credit limits.

The rating, however, continues to be constrained by the Group’s exposure to considerable execution, and market risk arising from the ongoing and planned capital expenditure in the near-to-medium term. Nevertheless, the Group’s demonstrated track record of development and leasing of commercial real estate assets provides comfort. The rating also factors in the vulnerability of the Group’s operations to cyclical demand trends and external factors, such as the Covid-19 pandemic.

The Stable outlook reflects ICRA’s expectation that the credit profile of the Group will remain supported by the Group’s established track record in the real-estate industry, asset quality and moderate leveraging in the commercial segment across locations.

Key rating drivers and their description

Credit strengths

Established track record and brand recognition of the Group in real estate industry - The Salarpuria-Sattva Group is one of the leading real estate players in the Bangalore real estate market with strong brand recognition and established track record of more than 36 years. The Group has completed several residential and commercial projects in and around Bangalore and Hyderabad.

Healthy rental income from commercial segment – The Group receives stable rental income from its leased commercial properties, located in Bangalore and Hyderabad, supported by high occupancy levels. Over the years, the Group has developed

over 36.8 msf (million square feet) of built-up area in commercial segment. As on March 2022, the Group owns leasable area of 13.8 msf out of the developed area, with annualised committed rental inflows of Rs. 1,127 crore. The rental income is expected to steadily improve going forward with addition of incremental area. The leased projects have established tenants like JPMC, Microsoft, Novartis, Google, State Street, among others. Over the last 18 months, the Group has successfully completed 4.13 msf of commercial development, while an additional 4.06 msf of commercial development will be completed by end of FY23.

Strong financial flexibility in the Group – The Group enjoys strong financial flexibility and comfortable liquidity against its commercial leasing portfolio on account of moderate leverage, undrawn sanctioned lease rental discounting (LRD) limits with adequate drawing power, and potential for raise further LRD loans, if required. The Group has an annualized committed rental income of Rs. 1,127 crore from completed leased properties as of March 2022, as against which the LRD debt outstanding was Rs 5,229 crore as of FY2022. LRD debt constitutes around 77% of the consolidated debt profile as of March 31, 2022. Total debt (including construction finance and debt in residential segment) by annualised rental income is estimated to be around 6 times by end of FY2023.

Credit challenges

Exposure to execution and market risk– The group is exposed to considerable execution risk given the significant capex planned to be incurred in the next two-three years. The group has under construction commercial portfolio of about 10.8 msf of total leasable area in and around Hyderabad and Bangalore mainly, expected to be completed in the next couple of years. Further, another 2.0 msf of commercial space development is in the stage of pre-construction activities. The ongoing pandemic has adversely impacted leasing activities, leading to some deferment in corporates' plans of taking up new spaces, given the business disruption caused and increased adoption of work-from-home. Nonetheless, the Group's demonstrated track record of development and leasing of commercial real estate assets provides comfort.

Sensitive to external market factors - The company is also exposed to external factors such as the inherent cyclicality in the real estate industry and regulatory risks, which could have an impact on the cash inflows of the company. Additionally, the incremental leasing in the Group's commercial leasing portfolio will be dependent on the extent of recovery in demand for office space after the disruptions created by the Covid-19 pandemic. While the occupancy at the aggregate level has remained healthy for the Group, certain individual properties have seen decline in occupancy during the last two years.

Liquidity position: Adequate

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

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the Group is able to maintain steady growth in leasing and residential income and achieve faster-than-expected construction and leasing in the development portfolio.

Negative factors – Negative pressure on rating could arise in case there is any significant drop-in occupancy levels in completed leased portfolio and/or delay in leasing tie-ups in the ongoing and upcoming commercial projects, leading to increased leverage. Further, higher than anticipated outflows towards land investments/support to other related entities and/or debt funded capex would be key credit concern. Specific credit metrics that could lead to a downgrade of rating include Total debt to annualized rental income increasing above 7.0 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology Rating Methodology- Real Estate entities Rating Methodology for Debt Backed by Lease Rentals |
| Parent/Group Support | Not Applicable |
| Consolidation/Standalone | ICRA has taken consolidated view of 57 companies of the Salarpuria-Sattva Group, based on the strong operational and financial linkages between the group entities and their common management group. In addition to the above, ICRA has also consolidated SPPL Hotels Private Limited, Darshita Aashiyana Private Limited, Dawntech Electronics Pvt Ltd and Simpliwork Offices Pvt Ltd, based on the corporate guarantee extended by Salarpuria-Sattva Group towards these entities. |

About the company

Salarpuria Properties Private Limited (SPPL) is the flagship company of the Salarpuria Sattva Group which was incorporated in 1986 by Mr. G D Salarpuria. 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 on 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, Google, State Street, among others.

Key financial indicators

| Consolidated | FY2020 | FY2021 |
|--|--------|--------|
| Operating Income (Rs. crore) | 1734.3 | 2018.0 |
| PAT (Rs. crore) | 380.5 | 423.5 |
| OPBDIT/OI (%) | 49.5% | 50.5% |
| PAT/OI (%) | 21.9% | 21.0% |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.4 | 1.4 |
| Total Debt/OPBDIT (times) | 6.9 | 6.3 |
| Interest Coverage (times) | 1.5 | 1.9 |

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA research.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | Chronology of Rating History for the past 3 years | | | | |
|---|---|-------------------------|--------------------------|---|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of March 31, 2022 (Rs. crore) | Date and Rating on | Date & Rating in FY2021 | Date & Rating in FY2020 | Date & Rating in FY2019 | Date & Rating in FY2018 |
| | | | | | 28-June-2022 | 15-April-2021 | 29-Nov-2019 | 6-Aug-2018 | - |
| 1 | Fund-based – Term Loan | Long Term | 85.00 | 136.0 | [ICRA]A+ (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Positive) | - |
| 2 | Fund-based - Working Capital Facilities | Long Term | 141.00 | | [ICRA]A+ (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Positive) | - |
| 3 | Non-fund Based-Working Capital Facilities | Long Term | - | - | [ICRA]A+ (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Positive) | - |
| 4 | Unallocated | Long Term | 40.87 | - | [ICRA]A+ (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Positive) | - |

Amount in Rs. Crore; NA-Not Applicable

Complexity level of the rated instrument - Simple

| Instrument | Complexity Indicator |
|---|----------------------|
| Long-term – Fund based - Term loans | Simple |
| Long-term – Fund based – Working capital facilities | 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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. Crore) | Current Rating and Outlook |
|---------|-----------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| NA | Term Loan 1 | Oct-2018 | - | Sep-2029 | 100.00 | [ICRA]A+ (Stable) |
| NA | Term Loan 2 | Aug-2016 | - | July-2027 | 41.00 | [ICRA]A+ (Stable) |
| NA | Overdraft 1 | - | - | - | 44.00 | [ICRA]A+ (Stable) |
| NA | Overdraft 2 | - | - | - | 41.00 | [ICRA]A+ (Stable) |
| NA | Unallocated | - | - | - | 40.87 | [ICRA]A+ (Stable) |

Source: Company.

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

Annexure-2: List of entities considered for consolidated analysis

| Company Name | Consolidation Approach |
|---|------------------------|
| Devbhumi Realtors Pvt Ltd | Full Consolidation |
| Worldwide Realcon Private Limited | Full Consolidation |
| Darshita Infrastructure Pvt Ltd | Full Consolidation |
| Softzone Tech Park Limited | Full Consolidation |
| Salarpuria Properties Private Limited | Full Consolidation |
| Eden Buildcon Limited | Full Consolidation |
| Haraparvati Realtors Private Limited | Full Consolidation |
| Mindcomp Properties Pvt Ltd | Full Consolidation |
| Darshita Southern India Happy Homes Private Limited | Full Consolidation |
| Darshita Hi-Rise Private Limited | Full Consolidation |
| Greenage Grihanirman Private Limited | Full Consolidation |
| Sattva Developers Private Limited | Full Consolidation |
| Rajmata Realtors Private Limited | Full Consolidation |
| Poppy Realtors Private Limited | Full Consolidation |
| Debonair Realtors Pvt Ltd | Full Consolidation |
| Salarpuria Grihanirman Private Limited | Full Consolidation |
| Mindcomp Tech Park Pvt Ltd | Full Consolidation |
| Mascot Properties Private Limited | Full Consolidation |
| Ss Developers | Full Consolidation |
| Salarpuria Real Estate Private Limited | Full Consolidation |
| Satern Grihanirman Private Limited | Full Consolidation |
| Salarpuria Housing Private Limited | Full Consolidation |
| Salarpuria Developers Private Limited | Full Consolidation |
| Sattva Housing Private Limited | Full Consolidation |
| Coremind Software & Services Private Limited | Full Consolidation |
| Sppl Property Management& Smpl | Full Consolidation |
| Sattva Build-Con Pvt Ltd., | Full Consolidation |
| Poorna Buildtech | Full Consolidation |
| Darshitha Edifice Llp | Full Consolidation |

| Company Name | Consolidation Approach |
|---|------------------------|
| Sattva Real Estate Pvt Ltd | Full Consolidation |
| Rajlaxmi Grihanirman Private Limited | Full Consolidation |
| Harkeshwar Realtors Private Limited | Full Consolidation |
| Pluto Realtors Private Limited | Full Consolidation |
| Quadro Infotechnologies Private Limited | Full Consolidation |
| Bhojeshwar Realtors Private Limited | Full Consolidation |
| Moonlike Construction Private Limited | Full Consolidation |
| Siddeshwari Grihanirman Private Limited | Full Consolidation |
| Neelanchal Griha Nirman Private Limited | Full Consolidation |
| Salarpuria Builders Pvt Ltd | Full Consolidation |
| Neelanchal Projects Llp | Full Consolidation |
| Darshita Build Tech Private Ltd | Full Consolidation |
| Water Edge Builders Private Limited | Full Consolidation |
| Vedant Grihanirman Private Limited | Full Consolidation |
| Wellgrowth Grihanirman Private Limited | Full Consolidation |
| Monotype Griha Nirman Pvt Ltd | Full Consolidation |
| Neelanchal Lifestyle Housing Llp | Full Consolidation |
| Neelanchal Dwelling Llp | Full Consolidation |
| Darshita Projects Private Limited | Full Consolidation |
| Savitrimata Realtors Pvt Ltd | Full Consolidation |
| Chinnamasta Properties Private Limited | Full Consolidation |
| Neelanchal High Rise Llp | Full Consolidation |
| Sattva Infrastructure India Pvt. Ltd. | Full Consolidation |
| Sattva Realtors Pvt Ltd | Full Consolidation |
| Neelanchal Realtors Llp | Full Consolidation |
| Darshita Housing Private Limited | Full Consolidation |
| Jaganmayi Real Estate Private Limited | Full Consolidation |
| Mindcomp Residence Private Limited | Full Consolidation |
| Sattva Infra Management Private Limited | Full Consolidation |
| Salarpuria Signum Complex LLP | Full Consolidation |
| SPPL Hotels Pvt Ltd | Full Consolidation |
| Darshita Aashiyana Pvt Ltd | Full Consolidation |
| Dawntech Electronics Pvt Ltd | Full Consolidation |
| Simpliwork Offices Pvt Ltd | Full Consolidation |

Source: Company.

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For more information, visit www.icra.in

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Branches



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