Isprout Business Centre Private Limited

July 29, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Non-Convertible Debentures	32.25	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	IVR BB+/Positive (IVR Double B Plus with Positive Outlook)	Rating reaffirmed and outlook revised	Simple
Total	**32.25 (Rupees Thirty two crore and twenty five lakh only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has reaffirmed its rating assigned to the Non-Convertible Debentures of Isprout Business Centre Private Limited (Isprout). The ratings assigned to the non-convertible debentures (NCDs derive strength from consistent increase in scale of operations supported by healthy occupancy levels, diversified client base and favourable location of projects, comfortable coverage metrics despite increase in leverage and experienced promoters. The rating strengths are, however, constrained by asset liability mismatch inherent to the business model, regional concentration of revenues, limited albeit fast growing scale of operations, large capex plans together with significant repayments related to the NCD issues which could pressurise liquidity in the medium term, and cyclicality in real estate industry.

The revision in the outlook to Stable from Positive is based on Infomerics Ratings' assessment that given the company's large capex plans in FY25-FY26 and the significant portion of internal accruals likely to fund the same, the company's liquidity could be moderated due to the large debt repayments related to the NCD issuances falling due in these two years.

Key Rating Sensitivities:

Upward Factors

- Further sustained increase in scale of operations while simultaneously demonstrating a steady improvement in capital structure over FY24 year-end levels.

- Availability of adequate liquidity cushion vis-à-vis the large debt repayments and capex to be incurred over the medium term.

Downward Factors

- Lower than expected cash flow on account of high vacancy rate impacting liquidity position of the company.
- Large debt-funded expansion resulting in weakening of debt coverage metrics and liquidity position on a sustained basis.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Consistent increase in scale of operations supported by healthy occupancy levels

After registering 90.4% revenue growth in FY23, Isprout has achieved 85.5% revenue growth in FY24, to reach Rs.104.9cr (as per provisional financials shared by the company). The company expects to surpass Rs.200cr revenues in FY25 supported by large capacity additions planned for the year and high occupancy rates given the continued strong demand for co-working spaces from clientele such as startups and IT companies. For future years, Infomerics Ratings expects revenue growth rate to taper down considerably due to base effect. Isprout has demonstrated the ability to achieve high occupancy levels quickly after leasing new commercial premises from owners. The occupancy levels as at year end June 2024 was 85.5% despite adding 6,276 workstations from FY24 onwards.

Diversified client base and favourable location of projects

As of 30 June 2024, the company had 14,442 seats in 15 locations with revenues spread across ~220 clients. Client concentration is low, with top 5 clients contributing to 17.7% of revenues in FY24 and Webhelp India Pvt Ltd, its largest client accounted for ~5.1% of revenues during the year. The company's facilities are located in commercially viable areas along with good connectivity to means of transport; thereby enhancing its marketability. For instance Coworking centres in Hyderabad are located in Hitech City and Gachibowli, while in Chennai are located in Thiruvika Industrial Estate, Guindy and Tiruvallur and in Pune they are located at Yerwada and Baner.

Comfortable coverage metrics despite increase in leverage

Isprout has raised Rs.40cr during FY24 vide issue of debentures, due to which its overall debt levels increased to Rs.43.64cr as at year end FY24 compared with Rs.25.66cr as at year end FY23. Due to this, its overall gearing increased to 1.62x from 1.10x over the same period. Despite this, the company's EBITDA interest cover improved to 4.86x in FY24 from 4.49x in FY23 due to the large increase in absolute EBITDA profits, to Rs.17.7cr from Rs.7.6cr. Interest and finance costs are expected to peak in FY25 due to issuance of second tranche of the NCDs of Rs.15cr as well as additional NCD issuances, however the interest cover is still expected to be maintained at close to FY24 level given the growth in operating profits.

Going ahead, the overall debt is expected to increase moderately in FY25 due to issue of additional NCDs (term sheet for Rs.35 cr NCDs has been signed with the investor, of which Rs.20cr was issued in June 2024), after which debt levels could decline, given the higher reliance on operating cash flows to fund capex in future years. The higher EBITDA profits are likely to sustain EBITDA interest cover above 4.0x in FY25, improving thereafter on account of fall in debt levels due to repayments. Isprout's DSCR which was 4.4x in FY24, is expected to decline to below 1.0x in FY25 and FY26 due to large scheduled debt repayments as well as capex to be undertaken in these years. The company expects to bridge the shortfall using security deposits received from prospective tenants in future, and also through working capital management vide the credit availed from its vendors for fitouts. The adoption of asset-light model from FY25 for part of the revenues, whereby Isprout will not need to incur capex on fitouts (with this capex being borne by the property owners in return for higher rentals) is expected to benefit the company over the long term by way of lower capital expenditure and conservation of its cash flows. Hence cash flow generation is expected to remain healthy despite a potential decline in EBITDA margin due to increasing share of revenues from asset light model.

Experienced promoters

Isprout Business Centre Pvt Ltd was founded by Ms. Sundaramma Patibandla and Mr. Sreenivas Tirdhala. Ms. Sundaramma Patibandla is a Chartered Accountant and has over a decade of experience in delivering advisory and audit services to diverse customer categories. Mr. Sreenivasa Rao Tirdhala has more than 20 years of experience in investment banking.

They have ensured that Isprout has implemented projects within scheduled timeline and has achieved capacity of 14,442 seats across 15 locations in 4 states as on 30 June 2024.

Key Rating Weaknesses

Asset liability mismatch inherent to the business model

Isprout enters into long-term lease agreements, usually of 5 years (extendable by another 5 years) with the property owners, while the lease agreements with its tenants are usually of around 2 years. This result is risk of asset-liability mismatch given the significantly lower revenue visibility and risk of non-renewal by tenants on one hand and the largely fixed nature of expenses (lease expenses, employee expenses, CAM charges) on the other. As per the company around 10%-15% of tenant contracts are due for renewal in FY25 (as a % of contracts o/s as on 31 March 2024). Isprout has tried to address this risk by entering into longer tenure leases and longer lock-in periods in case of the facilities developed in FY24 and beyond.

Regional concentration of revenues

Isprout's facilities are spread across 5 cities such as Chennai, Hyderabad, Vijaywada, Bengaluru and Pune, reflecting the geographic concentration of revenues to these 5 cities. Additionally, majority of the FY24 revenue ~ 78.6% was contributed by Hyderabad, followed by Chennai at 10.7% and Pune (7.4%). This compares favourably with FY23, when 89% of revenues were contributed by its facilities in Hyderabad alone. Concentration of revenues to a handful of cities exposes it to downturn in the demand for real estate in these locations. The company is addressing this problem by expanding into new geographies such as Mumbai, Kolkata, Gurugram and cities in Gujarat.

Limited albeit fast growing scale of operations

Isprout has achieved 88% CAGR growth in revenues from FY22 to FY24 to reach topline of Rs.104.9cr in FY24. While the growth rate has been strong, the scale is still modest when compared with certain larger peers. The ability to achieve a significantly higher scale of operations while sustaining EBITDA margins at healthy levels would be key rating considerations.

Large capex plans together with significant repayments related to the NCD issues could pressurise liquidity in the medium term

Isprout has capex plans totalling around Rs.90cr over FY25-FY27 comprising investments in fitouts and interiors for new premises being acquired. The company also has repayments of ~Rs.70cr over the same period pertaining to NCDs raised from Vivriti Asset Management, term loan availed from Srividya Infrastructure Pvt Ltd as well as promoter loans. These would be funded from a mix of NCDs, internal accruals and net security deposits (deposits received from new tenants less deposits placed with new landlords) availed. The company has also been availing credit from its capital creditors (vendors of components and raw materials for interiors/fitouts) for the purpose of managing its cash flows. IVRPL believes that the large payments to be made could pressurise cash flows in the next 2 years notwithstanding the exponential growth in revenues and cash accruals that is expected to be achieved.

Cyclicality in real estate industry

Isprout plans to add around 20,000 workstations over FY25-FY27 period for which it is expected to incur capex of around Rs.90cr. The same will be funded from a combination of cash accruals and deposits from clients. IVRPL believes that given the cyclical nature of the real estate industry, Isprout remains exposed to the risk of underutilisation of its large cumulative capacity over the next few years, in the event of a slowdown in the economy or a Covid-like situation necessitating forced lockdowns and work from home policies being implemented.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology – Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

Isprout's liquidity is currently adequate and reflected in its GCA of Rs.12.52cr for FY24 as against repayments of ~Rs.11cr in the year (comprising NCDs, private lenders and promoter loans). In FY25, given the expected large scale up in revenues, its cash accruals are expected to increase to over Rs.20cr compared with Rs.12.52cr for FY24.The company's working capital position is comfortable, due to negative operating cycle of 28 days as at FY24 end (-32 days as at end FY23), due to which it does not require any CC limits. It had cash and liquid investments of Rs.7.75cr at year end FY24, which increased to Rs.21.42cr as on 18 July 2024. IVRPL notes that Isprout has planned capex of Rs.35cr for FY25, with additional capex of ~Rs.55cr lined up for the next 2 years. Its scheduled repayments for the year are ~Rs.22cr. These are factors that could pressurise liquidity, although the agency is also aware that the company in the past has demonstrated the ability to manage its liquidity by deploying net security deposits from clients (security deposits received from new tenants less deposits placed with new landlords) as well as availing credit period from its capital creditors.

About the Company

Isprout Business Centre Private Limited (Isprout) was incorporated in 2017 by Sreenivasa Rao Tirdhala and Sundaramma Patibandla. The company provides coworking space, business centres, and corporate campuses in Hyderabad, Pune, Vijayawada, and Chennai. The company started business with 200 workstations and as of March 31,2023 which was scaled up to 14,442 workstations across 15 locations as on 30 June 2024.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	56.56	104.94
EBITDA	7.57	17.68
PAT	0.23	3.62
Total Debt	25.66	43.64
Tangible Net Worth	23.41	26.94
EBITDA Margin (%)	13.39	16.85
PAT Margin (%)	0.42	3.45
Overall Gearing Ratio (x)	1.10	1.62
Interest Coverage (x)	4.49	4.86

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: None.

Any other information:

Rating History for last three years:

Sr. No.	Name of Security/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2023-24		Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					(November 07, 2023)	(July 31, 2023)	Date (Month XX, 20XX)	Date (Month XX, 20XX)
1.	Non-Convertible Debentures	Long Term	32.25	IVR BB+/ Stable	IVR BB+ / Positive	IVR BB+ / Positive	-	-

Analytical Contacts:

Name: Sudarshan Shreenivas
Tel: (022) 62396023
Email: sudarshan.shreenivas@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Non-Convertible Debentures	INE0B2V07016	September 18, 2023	15%	August 31, 2026	18.75	IVR BB+/ Stable
Non-Convertible Debentures	INE0B2V07024	February 29, 2024	15%	August 31, 2026	13.50	IVR BB+/ Stable

Annexure 2: Facility wise lender details: Not Applicable

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Name of the Security		Detailed Explanation
	Financial Covenant	
	i. Date of Redemption	31st August 2026
	ii. Coupon Rate	Tranche 1: 15.00% per annum Tranche 2: 15.00% per annum
	iii. Step Up and Step Down Coupon Rate:	Step Up-0.50% (Per Notch Downgrade below BBB-) Step Down -0.50% (Per Notch Upgrade. It will not go beyond original coupon)
	iv. Date(s) of Payment of Interest	Quarterly
	v. Prepayment Penalty	Prepayment is not allowed during tock in period of 12 months and 7 days of deemed date of allotment of each Tranche. For Tranche 1 - 02.07.2025 & Tranche 2 - 08.12.2026 0.25% prepayment penalty on Issuance Amount prepayment post 12 months 7 days
	vi. Tenor	36 months from the date of issuance for 1st Tranche. 30 months from the date of issuance for 2nd Tranche.
	vii. Lock-in	18 months Lock-in from the date of Disbursement. Redemption Premium on Issuance Amount, payable at 0.50% of the Issuance Amount, thereafter.
	viii. Put Option	12 months from the date of Issuance of each tranche.
	Non-financial Covenant	
	i. Objective/Purpose of the issue	• First Towards closing all external Bank Loans / NBFC debt, except Tata Capital Loan and Capsave Loan. • Then towards capex for acquisition of properties for expansion of business. • Then towards refinancing of Related Party loans to the tune of maximum INR 6 crore.

	ii. Security	• Personal Guarantee from Mr. Sreenivasa Rao Tirdhala, Mrs. Sundaramma Patibandla & Ms. Sneha Boyalla and Post-Dated Cheques from all Promoters. • Demand Promissory Note (DPN) from Isprout. • INR 10.00 Crore worth of Fixed Immoveable Assets. • Corporate Guarantee of "Isprout Business Centre Private Limited" • Exclusive charge on Current Bank Accounts (ICICI Bank Ltd- A/C no 004005018280 and HDFC Bank Ltd- A/c no 50200023461110), Current Assets and Fixed Assets of Isprout. • All security /Assets/Receivables/ Escrow offered to Tata Capital Ltd, for their existing Debt of around INR 1.80 Cr to be offered to VAM as Exclusive charge on closure of the Tata Capital Ltd Loan. (within 45 working days) • All security/Assets/Receivables/ Escrow offered to Capsave Finance Pvt Ltd, of around INR 3.00 Cr for their existing Debt to be offered to VAM as Exclusive charge on closure of the Capsave Loan. (within 45 working days) • Pledge of 33.57% of total shares in Isprout, to be provided by the three Promoters, which they hold in their personal capacity. Accredited Valuer to provide valuation certificate for Isprout as on date. In case of an IPO/ Private Equity/ Venture Capital funding expected in the company, the pledge of shares will be released upon the condition that VAM be prepaid with a 1.00% "P/E Prepayment Premium" of the "Issuance Amount" from the proceeds of the Private Equity/ IPO/ Venture Capital infusion. (This is not Redemption Premium. This is "P/E Prepayment Premium" only in case of P/E / Venture Capital / IPO money coming before 18 months. After 18 months from the issue date, Redemption Premium to apply as defined above and the source of Income will not matter.) • FD lien marked to VAM worth INR 2.00 Cr. (To be lien marked before Drawdown of Tranche II) • NDU for shares of Mr. Vijay Kumar Oddiraju (7.36%) and shares of Mr. Kondapalli Ramanuja Sriharsha (13.00%) till the end of the tenure of this facility.
	iii. Reporting covenants	To consist of monthly, quarterly, and annual data, reports, and regular MIS data packs. This will cover both.

		Issuer to provide requested information on a timely basis to investors.

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.