Press Release

Isprout Business Centre Private Limited
July 31, 2023

Ratings

Instrument / Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Proposed Non-Convertible Debentures	40.00	IVR BB+/Positive (IVR Double B Plus with Positive Outlook)	Assigned	Simple
Total	**40.00 (Rupees Forty crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Isprout Business Centre Private Limited (Isprout) derive strength from experienced promoters, diversified presence and favourable locations of the projects, improved scale of operations and healthy occupancy levels in FY23. The rating strengths are, however, constrained by modest debt protection metrics, high lease renewal risk, exposure to market risk due to expansion plans and cyclicality in the real estate industry.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained improvement in the company's revenue and/or profitability while maintaining the debt protection parameters.

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

A. Key Rating Strengths

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 both have set up and implemented projects within scheduled timeline and have around 8350 seats across 9 locations in 4 states as on March 31, 2023.

Diversified presence and favourable locations of the projects

As of March 31, 2023, the company has around 8350 seats in 9 locations spread across 4 cities such as Chennai, Hyderabad, Vijaywada and Pune thus providing healthy revenue diversity. The said locations are located in commercially viable areas along with well-connectivity to means of transport; thereby enhancing its marketability. Coworking centres in Hyderabad are located in Hitech City while in Chennai are located in Thiruvika Industrial Estate, Guindy and Tiruvallur. Majority of the revenue ~ 89% is generated from the centres located in Hyderabad and Chennai. The revenue from the top 10 tenants in FY23 was about 36% of the total revenue, thereby resulting in low tenant concentration risks.

Improved scale of operations and healthy occupancy levels in FY23

The total scale of operations of the company has increased over the last year by ~90% from Rs. 29.70 crore in FY22 and to Rs. 56.56 crores in FY23 on account of increase in seats from 5400 in FY22 to 8350 in FY23. Additionally, all the centers of the company have maintained occupancy above 90% in the year ended March 31, 2023. Moreover, it caters to large and medium enterprise clients with a lock-in period of at least two years for most clients, which ensures cash flow stability. The company expects to add around 9,300 seats in FY24 backed by increased demand. The operating margins also accordingly improved to 13.39 % in FY23 from 2.56% in FY22.

B. Key Rating Weaknesses

Modest debt protection metrics

The company has modest debt coverage metrics in FY23 with interest coverage at 4.49 times in FY23. The overall gearing has moderated to 1.10x in FY23 against 0.68x in FY22. Also, TOL/TNW has moderated to 2.92x in FY23 against 1.21x in FY22. With the increase in number of seats and operating profits, backed by healthy occupancy levels, the debt coverage metrics are expected to improve in the projected period FY24-26.

High lease renewal risk

The company enters into leases with landlords for a period of 5 to 10 years, while the lease tenure with tenants' ranges between one month to three years. Short-term leases (≤ one year) account for 30% of the overall leases, thereby exposing Isprout to high lease renewal risk and volatility in earnings. The renewal rates of the same will remain key monitorable.

Exposed to market risk due to expansion plans

The company is planning to add 9,300 seats by FY25 through three phases. In the first phase an additional 3,500 seats will be added by September 2023 and funded through the NCDs being raised. The second and third phase will be addition of 5,800 seats to be completed by April 2024 primarily to be funded by private equity and internal accruals. Successful funding tie up and marketing to secure lease contracts for the new spaces will be a key monitorable.

Cyclicality in the real estate industry

Isprout is exposed to the cyclicality in the commercial real estate sector and vulnerability to external factors such as the Covid-19 pandemic. The pandemic has resulted in higher adoption of flexible working arrangements and broad-based increase in vacancies across most office leasing portfolios.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology – Infrastructure Companies]

[Criteria of assigning rating outlook]

[Criteria on Default Recognition]

[Financial Ratios & Interpretation (Non-Financial Sector)]

Liquidity: Adequate

The Company is projected to have adequate cash cover to service its debt obligations. Further, the proposed non-convertible debentures will have an escrow mechanism which will prioritize debt repayment before any other utilization. The Company has cash and cash equivalent of Rs.0.07 crore as on March 31, 2023.

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 it is operating 8350 workstations in 9 locations across 4 states.

Financials (Standalone):

(Rs. crore)

For the year ended / As On*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	29.70	56.56
EBITDA	0.76	7.57
PAT	-7.56	0.23
Total Debt	16.74	25.66
Tangible Net worth	24.61	23.41
Ratios		
EBITDA Margin (%)	2.56	13.39
PAT Margin (%)	-25.45	0.42
Overall Gearing Ratio (x)	0.68	1.10

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Proposed Non-Convertible Debentures	Long Term	40.00	IVR BB+/ Positive	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Himanshu Patil Tel: (022) 62396023 Email: himanshu.patil@infomerics.com	Name: Neha Khan Tel: (022) 62396023 Email: neha.khan@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.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Proposed Non-Convertible Debentures	To be decided	To be decided	36 months	40.00	IVR BB+/Positive (IVR Double B Plus with Positive Outlook)

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:

Security Description	Secured, Redeemable, Taxable, Unrated, Unlisted, Non-convertible Debentures
Quantity	Up to Rs. 40.00 crore
Face Value/Paid Up Value	To be decided
Date of Allotment	To be decided
Financial Covenants	
Date of Redemption	To be decided
Rate of Interest	To be decided
Date(s) of Payment of Interest	Quarterly
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.
Tenure	36 months
Put Option	18 months from the date of Issuance.
Redemption Premium	0.50% of the Issuance Amount when fully redeemed. OR end of Tenor, whichever is earlier.
Financial and other covenants	TBD Post Due Diligence
Non-Financial Covenants	
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 Expansion of business.
Escrow Mechanism	• All funds received by Isprout to be routed through an Escrow, Money collected to be credited to Isprout account at the end of each day. Escrow Amount to the tune of 1.15x(times) of P+I due quarterly, be trapped 15 working days before the due date of repayment as per the Repayment Schedule. Once the Due Amount is collected, the Residual Amount to be released to the issuer for expenses. • The funds deposited in the escrow account to be utilized for the following purposes in order of priority: • Penalty on late payment, Clearance of overdue, if any, on our facility (Penalty first, interest second, principal third.) • Isprout to ensure Amount balance equal to One Principal + Interest be deposited before 15 working days from the due date of the repayment each quarter in case Project cash flows are erratic/ unavailable due to any reason.
Security	• Fixed Deposit lien marked to worth Rs. 2.00 crore.
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.

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.