



Rating Rationale

Tanglin Developments Limited

23 Aug 2019

Brickwork Ratings revises the rating for the NCDs of Tanglin Developments Limited (hereafter referred to as TDL or the company) and continues the rating on Credit Watch with Negative Implications

Particulars

Instrument	Issue (Rs Crs)	Coupon	Redemption Date	ISIN	Previous Rating (Jul 31 2019)	Present Rating
NCD	25.00	1.25% [@]	22-Nov-2019	INE311107039	BWR BBB (SO) (Pronounced as BWR Triple B) (Structured Obligation) Credit Watch with Negative Implications	BWR BBB-(SO) (Pronounced as BWR Triple B Minus) (Structured Obligation) Credit Watch with Negative Implications Downgraded
NCD	25.00	1.25% [^]	23-Jan-2020	INE311107047	BWR BBB (SO) (Pronounced as BWR Triple B) (Structured Obligation) Credit Watch with Negative Implications	BWR BBB-(SO) (Pronounced as BWR Triple B Minus) (Structured Obligation) Credit Watch with Negative Implications Downgraded
Total	50.00	Rupees Fifty Crores Only				

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

[@]Redemption premium- NCDs are redeemable at premium at the maturity date, the XIRR of 12.90% per annum payable quarterly, after taking into account cash coupons paid at the rate of 1.25% p.a.

[^]Redemption premium- NCDs are redeemable at premium at the maturity date, the XIRR equivalent to 12.90% per annum payable quarterly, after taking into account cash coupons paid at the rate of 1.25% p.a.

Ratings Downgraded and continued on Credit Watch with Negative Implications

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financials of the Company upto FY19, projections upto FY21, publicly available information and information/clarifications provided by the management.



Rationale

The rating assigned to the NCDs is based on credit enhancement by way of pledge of shares of Coffee Day Enterprises Limited (CDEL - listed company and holding company of TDL), Sical Logistics Limited (Sical - listed Company and Step down subsidiary of CDEL, rated BWR BB- Credit Watch with Negative Implications) and Coffee Day Global Limited (CDGL - subsidiary of CDEL). In addition, the NCDs are secured by the personal guarantee of Mr V G Siddhartha and Corporate Guarantees of Tanglin Retail Realty Developers Pvt Ltd (subsidiary of Tanglin Developments Ltd) and CDEL.

The rating revision factors the significantly reduced financial flexibility of the company and heightened refinancing risk following the demise of its promoter, Mr V G Siddhartha, Founder of the Coffee Day group and guarantor for the NCDs. Recent developments have resulted in steep decline in the prices and market capitalization of the shares of CDEL and Sical, resulting in fall in security cover below the stipulated threshold. The high level of pledging of the promoters' holdings have further constrained the financial flexibility. In view of the company's inability to arrange for topup of security cover and comply with the NCD covenants, it is understood that the pledged shares have been invoked and transferred to the debenture holders. However, the coupon obligations till date on the rated NCDs are reported to have been met.

The Coffee Day group has announced that it is in the process of deleveraging through monetizing certain assets of the group. CDEL has announced the divestment of Global Village Tech Park in Tanglin Developments Ltd (TDL) in favour of Blackstone. The Transaction Value is about Rs 2,600 - 3,000 crore and the Company has entered into a non-binding letter of intent. The transaction closure is subject to completion of due diligence, documentation and receipt of requisite regulatory approvals, which is expected in the next 30- 45 days. The transaction proceeds would be utilised to repay the debt in the Company as also for paring other group companies' debt.

The coupon payment to the investors on the rated NCDs is ~ Rs 0.31 Crs each on Sep 20 2019 and on Oct 10 2019. The company has earmarked the required amount towards payment of these coupon obligations and BWR draws comfort from such demonstrated sources of funding. The company has informed BWR that both the rated NCDs would be redeemed ahead of the scheduled redemption dates from the proposed sale proceeds of Global Village Tech Park.

The Rating is continued on Credit Watch with Negative Implications in view of the uncertainty till conclusion of the sale of Global Village Tech Park and receipt of sale proceeds. BWR shall continue to monitor the developments in this regard and shall take appropriate rating action as and when clarity is available.

Timely conclusion of the transaction for sale of Global Village Tech Park is crucial and the ability of the Company to service its next NCD coupon obligation on Sep 20 2019 and complete redemption as proposed through the divestment proceeds are key rating sensitivities. Any delay in transaction closure would be negative from the rating perspective.



Analytical approach

For arriving at its ratings, Brickwork Ratings has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale).

Key rating drivers

Credit Strengths:

- **Favourable location of properties :** TDL's technology parks are 'Global Village' in Bengaluru, and 'Tech Bay' in Mangalore, which are at prime locations. Global Village is spread across a land parcel of approximately 114 acres, located at Rajarajeshwari Nagar off Mysore Road, Bengaluru, with approximately 3.6 million sq. ft of developed area, wherein there is healthy demand for commercial office space. The favourable location of the project and the competitive rental rates reduce the vacancy risks. Tech Bay is spread across a land parcel of approximately 21 acres which is located opposite Mangalore Club, with approximately 0.3 million sq. ft. of developed area.
- **Revenue model, reputed tenants and steady cash flows :** The Company's revenue model is backed by steady cash flows in term of lease rentals. There are more than 17 companies in the Park and some of the key clients are Northern Trust, Mphasis, Meritor, Global Edge, Crompton Greaves, Mindtree, Sonata, NTT Data, HGS, Torry Harris etc. Lease agreements with >40% of the companies have a lock in period for 5 years. There is a well-secured lease structure, with a lock-in and lease period ranging between 5 and 25 years and 15 years for most tenants, and an in-built revenue escalation clause for 15%/5% for 3/1 years for most tenants.
- **Divestment of Global Village Tech Park:** The Group has announced divestment of this Tech Park in favour of Blackstone. The proposed transaction is reported to be in advanced stages of due diligence and it is expected that the deal would be concluded by September 2019.

Credit Weakness:

- **Weakened financial flexibility at Coffee Day Group level:** The ability of the Coffee Day group to support its group entities is constrained under the current circumstances. CDEL has announced certain divestments and is reported to be working on monetisation of other group assets in the coffee and non coffee related businesses. Sale proceeds from such divestments are expected to ease liquidity at the Group level and reduce the debt position. The extent of deleveraging and timelines would be key for easing the liquidity of the group.
- **Sizeable debt and high refinancing risk :** Under the current circumstances, the company's ability to raise funds has been adversely impacted. The major portion of the rental income is escrowed for servicing of the LRD loans availed by the company. Timely closure of ongoing divestment would mitigate the liquidity pressure and help in repayment of debt of around Rs 1622 Crs of TDL.
- **Steep erosion in market capitalisation of pledged shares and depletion of security cover:** The volatility and sharp decline in share prices of the listed entities of the Group viz., CDEL by around 62% and SICAL by around 62% since July 30 2019 have contributed to a significant diminution in



the value of security cover of the rated NCDs and resulted in invocation of pledged shares. However, it is learnt that the invoked shares are yet to be liquidated.

Liquidity Position: Stretched

The ongoing business uncertainties, strained refinancing ability and reduced ability of the Coffee Day group to extend support have stretched the liquidity. The coupon payment to the investors on the rated NCDs is ~ Rs 0.31 Crs each on Sep 20 2019 and on Oct 10 2019. for which Company has earmarked the required amount towards payment of these coupon obligations.. The company expects the divestment to be completed by September 2019 and anticipates prepayment of its debt, including the rated NCDs. Any delays in this transaction would impact the liquidity adversely.

About the Company

Tanglin Developments Limited (TDL) was incorporated in Dec 1995 at Bengaluru. TDL is a 100% subsidiary of CDEL. TDL owns technology parks viz., ‘Global Village’ in Bengaluru and ‘Tech Bay’ in Mangalore. These commercial spaces are leased to various tenants including Northern Trust, Mphasis, Meritor, Global Edge, Crompton Greaves, Mindtree, Sonata, NTT Data, HGS, Torry Harris etc etc.

[Previous Rating Rationale](#)

Financial Performance

Key Parameters	Units	31 Mar 2018	31 Mar 2019
Result Type		Audited	Audited
Total Operating Income	Rs. Crs	134.26	142.51
EBITDA	Rs. Crs	109.29	107.63
PAT	Rs. Crs	11.40	2.92
Tangible Net worth	Rs. Crs	70.28	80.84
Total Debt/Tangible Net Worth	Rs Crs	34.37	27.33

Rating History for the last three years

Sl. No	Instrument	Current Rating (2019)				Rating History					
		Type	Amount (Rs Crs)	23 Aug 2019	31 July 2019	2018		2017	2016		
						27 Aug 2018	27 Jun 2018	04 Aug 2017	02 Nov 2016	21 Sep 2016	
1	NCD (Tenor: 3 years 3 Months)	Long Term	25.00	BWR BBB-(SO) (Pronounced as BWR Triple B Minus) (Structured Obligation) Credit Watch with Negative Implications Downgraded	BWR BBB (SO) (Pronounced as BWR Triple B) (Structured Obligation) Credit Watch with Negative Implications Downgraded	BWR A- (SO) (Pronounced as BWR A Minus) (Structured Obligation) Outlook:Stable	BWR A- (SO) (Pronounced as BWR A Minus) (Structured Obligation) Outlook:Stable	BWR A- (SO) (Pronounced as BWR A Minus) (Structured Obligation) Outlook:Stable	BWR A- (SO) (Pronounced as BWR A Minus) (Structured Obligation) Outlook:Stable	NA	
2	NCD (Tenor: 3 years 2 Months)	Long Term	25.00	BWR BBB-(SO) (Pronounced as BWR Triple B Minus) (Structured Obligation) Credit Watch with Negative Implications Downgraded	BWR BBB (SO) (Pronounced as BWR Triple B) (Structured Obligation) Credit Watch with Negative Implications Downgraded	BWR A- (SO) (Pronounced as BWR A Minus) (Structured Obligation) Outlook:Stable	BWR A- (SO) (Pronounced as BWR A Minus) (Structured Obligation) Outlook:Stable	BWR A- (SO) (Pronounced as BWR A Minus) (Structured Obligation) Outlook:Stable	BWR A- (SO) (Pronounced as BWR A Minus) (Structured Obligation) Outlook:Stable	BWR A- (SO) (Pronounced as BWR A Minus) (Structured Obligation) Outlook:Stable	
Total			50.00	Rupees Fifty Crores Only							

Hyperlinks/Reference to applicable Criteria

- [General Criteria](#)
- [Ratings Policy](#)
- [Infrastructure Sector](#)
- [Structured Obligation \(SO\) Instruments](#)



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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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