February 05, 2021

DLF Cyber City Developers Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund based	6,437.0	9,478.1	[ICRA]AA- (Stable); reaffirmed/ assigned
Short-term Fund based	300.0	300.0	[ICRA]A1+; reaffirmed
Short-term Non-fund based	200.0	200.0	[ICRA]A1+; reaffirmed
Commercial Paper	1,000.0	1,000.0	[ICRA]A1+; outstanding
NCD	1,500	1,500	[ICRA]AA- (Stable); outstanding
Total	**9,437.0**	**12,478.1**	

**Instrument details are provided in Annexure-1*

Rationale

Given the presence of strong operational, financial and managerial linkages, ICRA has taken a consolidated rating view for DLF Cyber City Developers Limited and its subsidiaries, engaged in the business of commercial real estate ((hereinafter referred to as DCCDL or DCCDL Group). Further, while 66.67% of DCCDL is held by DLF Limited (DLF, rated [ICRA]A+(Stable)/A1), ICRA has not taken a consolidated rating view on DLF and DCCDL groups. This is on account of the presence of a strong shareholder in DCCDL (GIC group with 33.33% stake), who has affirmative rights for all significant decisions. Now with the settlement of advances (from DLF to DCCDL) completed in H1FY2020, ICRA expects that the financial transactions amongst the two groups will be limited to regular payment of dividend (from DCCDL to DLF), and on-going commercial transactions for project development, all of which are being done on arm's length basis, as per the understanding provided by the management.

The rating reflects the strong the parentage of DCCDL, with its promoter - DLF Limited, having an established track record of successfully developing assets and subsequently leasing the same, and co-shareholder - GIC, sovereign wealth fund of Singapore. The continuing growth in the consolidated scale of DCCDL's operations is also favourably factored in, with the total operational leasable area of the group increasing to 33.3 mn. sq. ft. as on September, 2020, post commencement of operations at Cyber Park, Gurgaon and Chennai Block – 11, aggregating to 3.0 mn. sq. ft. leasable area. Going forward, a further increase is expected in DCCDL's leasable area, given the ongoing construction of Downtown Gurgaon and Downtown Chennai. Moreover, One Horizon Center, Gurgaon, a commercial asset with a leasable area of 0.81 mn. sq. ft., which is currently under joint venture with the Hines Group, is expected to become 100% subsidiary of DCCDL during Q4FY2021, post-acquisition of the Hines stake by DCCDL. DCCDL is funding the buy-out of Hines' stake via mix of debt and internal accruals. Overall, DCCDL's leasing portfolio comprises diverse, high quality assets having favourable locations, which have attracted reputed tenants and recorded healthy occupancy levels. Office segment occupancy stood at a high 93% as in Q2FY2021, notwithstanding some decline from the 95% recorded in Q4FY2020, on the back of Covid-19 related disruptions. The Group's retail portfolio, which stood at 4.0 mn. sq. ft. (12% of the total operational leasable area) as in September, 2020, has however, been significantly impacted, with malls having been closed during the lock-down period, with footfalls remaining low till Q2FY2021 even post the resumption of operations. DCCDL has given full waiver of rentals in Q1FY2021, 50% waivers in Q2FY2021 and 25% waivers in the Q3FY2021 to its lessees in the retail segment basis certain preconditions, with the lessees being eligible for the waivers if they agree to the said preconditions. This has resulted in a considerable reduction in the retail rentals for H1FY2021 and is expected to adversely affect overall retail rentals for FY2021. Consequently, the near-term DSCR is expected to moderate to some extent. Nonetheless, ICRA continues to draw comfort from the high liquidity available with the Group, which includes free cash & liquid balances of around ~Rs. 1,200 crore as on September 30, 2020, as well as the strength of the Group's office leasing segment, which has been its key revenue contributor, generating 85% of its total revenues on average over the past 2 years. Going forward, DCCDL's ability to maintain high occupancy levels in its operational and upcoming commercial properties will remain a key credit monitorable, given that the lock-in period has expired for most of the existing leases. Risks in this regard may be further exacerbated in case of structural changes brought about by the Covid-19 pandemic altering the way in which corporates function over the medium-to-long term, resulting in possible rationalization of office space leasing. ICRA also notes that DCCDL remains exposed to geographical concentration risks, with ~52% of the commercial leasable area being concentrated in Gurgaon with a high average rental of Rs. 107 per sft, resulting in exposure to migration risks of tenants to more competitive micro-markets. The ratings also factor in the sensitivity of the cash cover to interest rate risks. While interest rates are currently on a downtrend, and DCCDL has refinanced certain loans to bring down its weighted average cost of debt to 8.46% as in September, 2020, from 8.90% in March, 2020, sustainability of the same going forward remains to be seen. ICRA also notes the absence of a debt servicing reserve account (DSRA) for most of the loans, which increases the reliance on timely realisations of rentals, although the availability of considerable liquid balances provides comfort. The ratings also remain constrained on account of exposure to project risks for the development capex that the company is likely to carry out over the medium term. The current organic development potential of DCCDL stands at ~30 mn. sq.ft, including the on-going development of ~ 3.9 mn sq.ft as in Q2FY2021. While any significant increase in debt-funded capex going forward will remain a key rating monitorable, ICRA takes note of the management's stated intent to largely maintain net debt at the current level (Rs. 18,103 crore as in September, 2020), which would result in moderation of leverage indicators (in terms of NOI/net debt) with the addition and stabilization of retail and new rent generating assets, as well as regular escalation in rentals in operational projects, over the next few years.

Overall, DCCDL's ability to maintain occupancy levels in its completed portfolio, stabilize retail rentals, renew leases at adequate rates, and manage execution and market risks associated with the development portfolio, would be the key rating sensitivities going forward. Movement in leverage and coverage levels will also be a key rating monitorable.

Key rating drivers and their description

Credit strengths

Strong operational profile marked by high occupancy and strong rentals - DCCDL at present has ~33.3 mn sq ft of operational area. A large part of the leasable portfolio, (~29.4 mn sq.ft area) is available for office leasing while the balance is earmarked for the retail space. The properties are of high quality, and are favourably located, and have therefore attracted marquee tenants, with the consolidated portfolio enjoying healthy occupancy of 93% as on September 30, 2020, notwithstanding a decline from 95% as on March 31, 2020, owing to Covid-19 related disruptions.

Further growth in consolidated scale of operations going forward expected to support overall financial profile and debt coverage – DCCDL's rental income is expected to display healthy growth over the near-to-medium term in the backdrop of the ongoing and planned development capex. DCCDL's consolidated scale of operation has increased to 33.3 mn. sq. ft. post commencement of operations at Cyber Park, Gurgaon and Chennai Block – 11 aggregating to 3.0 mn. sq. ft. leasable area. Both assets have been commissioned with healthy occupancy levels, standing at 88% and 100%, respectively. Going forward, a further increase is expected in DCCDL's leasable area, given the ongoing construction of 3.9 mn. sq. ft. across the first phases of Downtown Gurgaon and Downtown Chennai. Moreover, One Horizon Center, Gurgaon, a commercial asset with a leasable area of 0.81 mn. sq. ft., which is currently under joint venture with the Hines Group, is expected to become 100% subsidiary of DCCDL during Q4FY2021, post-acquisition of the Hines stake by DCCDL. The asset, which is 98% occupied as of September, 2020, DCCDL is funding the buy-out of Hines' stake via mix of debt and internal accruals. With this increase in leasable area, overall lease rentals are expected to increase significantly over the near to medium term.

Strong promoters with established track record – DCCDL is a JV of DLF Limited and GIC, Singapore. DLF holds 66.67% and GIC holds 33.33% in the company. DLF has an established track record of successfully developing and leasing properties. GIC is sovereign wealth fund of Singapore. As such, the ratings factor in the benefit drawn by DCCDL by leveraging its promoters' extensive experience and association with companies, both global and domestic, in order to achieve healthy occupancy levels.

Credit challenges

Disruption in business operations on account of Covid-19 expected to result in some moderation in DSCR over the near-term – Occupancy in DCCDL's office leasing portfolio declined to 93% in Q2FY2021 from 95% in Q4FY2020, due to Covid-19 related disruptions. The Group's retail portfolio, which is 12% of the total operational leasable area, has however, been more significantly impacted, with malls having been closed during the lock-down period, with footfalls remaining low till Q2FY2021 even post the resumption of operations. DCCDL has given full waiver of rentals in Q1FY2021, 50% waivers in Q2FY2021 and 25% waivers in the Q3FY2021 to its lessees in the retail segment basis certain preconditions, with the lessees being eligible for the waivers if they agree to the said preconditions. This has resulted in a considerable reduction in the retail rentals for H1FY2021, and is expected to adversely affect overall retail rentals for FY2021. Consequently, the near-term DSCR is expected to moderate to some extent. Nonetheless, ICRA continues to draw comfort from the high liquidity available with the Group, which includes free cash & liquid balances of around ~Rs. 1,200 crore as on September 30, 2020, as well as the strength of the Group's office leasing segment, which has been its key revenue contributor, generating 85% of its total revenues on average over the past 2 years.

Going forward though, DCCDL's ability to maintain high occupancy levels in its operational and upcoming commercial properties will remain a key credit monitorable, given the possibility of structural changes being brought about by the Covid-19 pandemic in the commercial leasing segment. Risks in this regard are further exacerbated by the lock-in period having expired for most of DCCDL's existing leases. Moreover, the ratings factor in the sensitivity of the cash cover to interest rate risks. While interest rates are currently on a downtrend, and DCCDL has refinanced certain loans to bring down its weighted average cost of debt to 8.46% as in September, 2020, from 8.90% in March, 2020, sustainability of the same going forward remains to be seen. ICRA also notes the absence of a debt servicing reserve account (DSRA) for most of the loans, which increases the reliance on timely realisations of rentals, although the availability of considerable liquid balances provides comfort.

Exposure to geographical concentration risks - DCCDL's leasing portfolio of ~33.3 mn sq ft. is largely spread across six cities. However, around 52% of the leasable area is concentrated in Gurgaon, with a high average rental of Rs. 107 per sft, resulting in exposure to migration risks of tenants to more competitive micro-markets.

Risks associated with development capex - The current organic development potential with DCCDL is ~30 mn sq ft, including the on-going development of ~ 3.9 mn sq.ft as in Q2FY2021. The extent of debt funding of the capex incurred towards this development will remain a key rating monitorable. However, ICRA takes note of the management's stated intent to largely maintain net debt at the current level (Rs. 18,103 crore as in September, 2020), which would result in moderation of leverage indicators (in terms of NOI/net debt) with the addition and stabilization of retail and new rent generating assets, as well as regular escalation in rentals in operational projects, over the next few years.

Liquidity position: Strong

While the Covid-19 pandemic is expected to adversely impact revenues and cash accruals over the near to medium term, especially in the retail segment, DCCDL's overall liquidity profile remains strong, aided by healthy cash flow generation from stable rentals being generated from a diversified portfolio of leased office assets. Also, the company, as a practice, maintains at least three months of upcoming debt repayment as cash balance, which provides further comfort. Free cash and liquid balances stood at around ~Rs. 1,200 crore as on September 30, 2020.

Rating sensitivities

Positive factors – ICRA could upgrade DCCDL's rating if the company is able to achieve significant ramp-up in its operating revenues on the back of leasing at higher rates and/or faster-than-expected construction and leasing in the development portfolio, or if it is able to reduce its leverage ratios significantly over the near to medium term. Specific credit metrics that could lead to an upgrade of DCCDL's rating include the average DSCR over the next five years increasing to 1.50 times and net debt to rental reducing to 4.75 times on a sustained basis.

Negative factors – Negative pressure on DCCDL's rating could arise in case of any renegotiation in the commercial/retail rentals or higher than expected impact on rentals and occupancies on account of COVID-19. Rating could also be impacted if debt build-up is higher than expected, leading to lower-than-expected cash cover. Specific credit metrics that could lead to a downgrade of DCCDL's rating include the average DSCR over the next five years declining to below 1.3 times or net debt to rental increasing above 6.5 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of DCCDL and its subsidiaries given the close business, financial and managerial linkages among them.

About the company

DCCDL is involved in the business of developing, setting up and maintaining of commercial offices, retail spaces, technology parks and software parks. In December 2017, GIC, Singapore acquired 33.33% in DCCDL and the balance 66.67% is held by DLF Limited. Currently, it has an operational leasable potential of 33.3 mn sq ft with average occupancy of 93% as in September 30, 2020.

Key financial indicators (audited)

DCCDL Consolidated	FY2018	FY2019	FY2020
Operating Income (Rs. crore)	3924.34	3,958.80	4435.57
PAT (Rs. crore)	1420.54	1,399.56	1313.83
OPBDIT/OI (%)	64.2%	67.3%	69.3%
RoCE (%)	14.03%	13.98%	13.18%
Total Outside Liabilities/Tangible Net Worth (times)	2.54	2.58	3.76
Total Debt/OPBDIT (times)	6.91	6.32	6.40
Interest Coverage (times)	1.50	1.55	1.79
DSCR (times)	1.32	1.18	1.04

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)						Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2021 (Rs. crore)	Date & Rating in			Date & Rating in FY2020	Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018	
					5-Feb- 2021	22-Jan-2021	26-June-2020	17-Sep-19	22-May-19	12-Oct-18	25-Jan-18	4-Aug-17	12-Apr-17
1	Non-convertible Debentures -1	Long Term	700.0	700.0	[ICRA]AA- (Stable); outstanding	[ICRA]AA- (Stable); assigned	-	-	-	-	-	-	-
2	Non-convertible Debentures -2*	Long Term	800.0	0.0	[ICRA]AA- (Stable); outstanding	[ICRA]AA- (Stable); assigned							
3	Non-convertible Debentures -3	Long Term	400.0	0.0	-	[ICRA]AA- (Stable); reaffirmed and withdrawn	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-	-	-	-
4	Fund Based	Long Term	9478.1	9478.1	[ICRA]AA- (Stable); reaffirmed/assigned	[ICRA]AA- (Stable); outstanding	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A (SO) (Stable)	[ICRA]A (SO) (Stable)
5	Commercial Paper	Short Term	1000.0*	-	[ICRA]A1+; outstanding	[ICRA]A1+; outstanding	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-
6	Short-term fund-based	Short Term	300	270	[ICRA]A1+; reaffirmed	[ICRA]A1+; outstanding	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A+ (Positive)	-	-	-
7	Short-term non-fund based	Short Term	200		[ICRA]A1+; reaffirmed	[ICRA]A1+; outstanding	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	-	-

*yet to be placed

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate*	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
INE186K07023	Non-convertible Debentures -1	27-Jan-21	7.3%	27-Jan31	700.0	[ICRA]AA- (Stable)
NA	Non-convertible Debentures -2	Yet to be placed	NA	Yet to be placed	800.0	[ICRA]AA- (Stable)
NA	Term Loan 1	29-Oct-18	-	15-Oct-27	922	[ICRA]AA-(Stable)
NA	Term Loan 2	16-Jan-20	-	15-Oct-27	144	[ICRA]AA-(Stable)
NA	Term Loan 3	10-Mar-17	-	9-Mar-26	920	[ICRA]AA-(Stable)
NA	Term Loan 4	16-Jan-20	-	9-Mar-26	147	[ICRA]AA-(Stable)
NA	Term Loan 5	15-Oct-20	-	30-Sep-35	2,385	[ICRA]AA-(Stable)
NA	Term Loan 6	24-Mar-17	-	1-Mar-29	183	[ICRA]AA-(Stable)
NA	Term Loan 7	29-Jun-19	-	1-Mar-29	191	[ICRA]AA-(Stable)
NA	Term Loan 8	30-Mar-17	-	1-Mar-29	468	[ICRA]AA-(Stable)
NA	Term Loan 9	1-Jun-17	-	1-Mar-29	281	[ICRA]AA-(Stable)
NA	Term Loan 10	29-Mar-17	-	1-Mar-29	187	[ICRA]AA-(Stable)
NA	Term Loan 11	20-Jun-18	-	1-Mar-29	47	[ICRA]AA-(Stable)
NA	Term Loan 12	31-Mar-17	-	1-Mar-29	140	[ICRA]AA-(Stable)
NA	Term Loan 13	21-Nov-16	-	31-Oct-28	817	[ICRA]AA-(Stable)
NA	Term Loan 14	29-Mar-17	-	31-Oct-28	43	[ICRA]AA-(Stable)
NA	Term Loan 15	17-Aug-18	-	31-Oct-28	217	[ICRA]AA-(Stable)
NA	Term Loan 16	27-Dec-17	-	1-Dec-29	251	[ICRA]AA-(Stable)
NA	Term Loan 17	30-Mar-17	-	31-Mar-29	680	[ICRA]AA-(Stable)
NA	Term Loan 18	29-Jul-20	-	30-Nov-28	288	[ICRA]AA-(Stable)
NA	Term Loan 19	1-Jan-21	-	31-Dec-32	1,167	[ICRA]AA-(Stable)
NA	Short-term fund-based	24-Mar-17	-	1-Mar-29	300	[ICRA]A1+
NA	Bank Guarantee	-	-	-	200	[ICRA]A1+ r
NA	Commercial Paper	Not placed yet	-	-	1,000	[ICRA]A1+;

wt. average rate of interest is 7.75% as on December, 2021

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	DCCDL Ownership	Consolidation Approach
DLF Cyber City Developers Limited (Holding Company)	-	**Full Consolidation**
Subsidiary companies		
DLF Assets Limited	100%	Full Consolidation
DLF City Centre Limited	100%	Full Consolidation
DLF Emporio Limited	100%	Full Consolidation
DLF Info City Developers (Chandigarh) Limited	100%	Full Consolidation
DLF Info City Developers (Kolkata) Limited	100%	Full Consolidation
Nambi Buildwell Limited#	100%	Full Consolidation
DLF Power & Services Limited	100%	Full Consolidation
DLF Promenade Limited	100%	Full Consolidation
Richmond Park Property Management Services Limited	100%	Full Consolidation
Fairleaf Real Estate Private Limited	50%	Limited Consolidated

Source: *Annual report FY2020*

Note: *ICRA has taken a consolidated view of the parent (DCCDL), its subsidiaries and associates while assigning the ratings.*

ANALYST CONTACTS

Shubham Jain
+124-4545 306
shubhamj@icraindia.com

Pallavi Singh
+91 124 4545 393
Pallavi.singh@icraindia.com

Mahi Agarwal
+33-7150 1106
mahi.agarwal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches