November 14, 2022

DLF Cyber City Developers Limited: Ratings reaffirmed on existing limits and assigned to enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	1282.37	1282.37	[ICRA]AA (Stable); reaffirmed
Non-convertible Debentures	0.00	1150.00	[ICRA]AA (Stable); assigned
Long-term Fund-based – Term Loan	8437.37	8437.37	[ICRA]AA (Stable); reaffirmed
Short-term Non-fund based	294.0	294.0	[ICRA]A1+; reaffirmed
Total	**10,013.74**	**11163.74**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in the resilient performance of DLF Cyber City Developers Limited (DCCDL) in FY2022 and H1 FY2023, as reflected by 11% and 20% growth in rental income and 9% and 21% growth in EBITDA, respectively, which resulted in improved leverage and debt protection metrics. Further, driven by the expected ramp-up in occupancy due to the waning impact of the pandemic on both office and retail portfolio and commencement of income from the new properties, ICRA expects the NOI to grow by around 15-20% in FY2023, which along with stable debt levels will result in net debt[1]/net operating income (NOI) below 5 times in FY2023.

The ratings continue to derive comfort from DCCDL's leadership position in the office and retail leasing segment in the country. At present, DCCDL operates one of the largest commercial real estate portfolios in the country spread across office (35.7 msf, 89% of the total leasable area) and retail segments (3.9 msf, 10% of the total leasable area). The total operational leasable area stood at 39.6 msf as of September 2022. The portfolio is spread across seven states including Gurgaon (59% of the leasable area), followed by Chennai (20% of the leasable area), Hyderabad, Noida, Kolkata, Delhi and Chandigarh. Furthermore, DCCDL's strong asset portfolio comprises high quality properties at favourable locations, which have attracted reputed, large and diverse set of tenants, from multiple industries. Over the last five quarters, the occupancy in DCCDL's portfolio has stabilised and improved to 90% as of September 2022 from 87% as of June 2021. Further, the revenues from the retail segment are on an improving trajectory, on the back of recovery in footfalls and trading values. The revenues from the retail segment improved to Rs. 351 crore in H1 FY2023 from Rs. 162 crore in H1FY2022, reflecting growth of 117%. With 5.3 million square feet (msf) of area under-development in DLF Downtown Gurgaon (phase-II) and DLF Downtown Chennai projects and additional development potential of around 25.0 msf, the company's cash flows are expected to improve steadily over the long term.

The ratings derive comfort from DCCDL's strong parentage, with 66.67% stake held by DLF Limited (DLF) and 33.33% by the Government of Singapore Investment Corporation (GIC). DLF is one of the largest real estate developers in India and has an established track record of successfully developing and leasing commercial as well as retail assets across multiple geographies, while GIC is the sovereign wealth fund of Singapore having a track record of over four decades and strong investment portfolio. DCCDL enjoys robust financial flexibility on the back of strong parentage, large portfolio, established relationships with reputed tenants, lenders and unencumbered land bank.

[1] *Net debt = Gross debt minus cash and equivalents*

However, the ratings are constrained by the risks to the portfolio from the cyclicality in the sector and vulnerability to external developments. The occupancy of the portfolio had moderated to 90% as of September 2022, from 95% as of March 2020, due to the impact of the Covid-19 pandemic. Adoption of work from home by many of the tenants and cost rationalisation measures by certain tenants had resulted in pressure on the occupancy. Nonetheless, the occupancy in DCCDL's portfolio has stabilised and improved from 87% as of June 2021 to 90% as of September 2022. Concessions given to tenants in the retail malls due to the pandemic-led lockdowns and other restrictions had affected the retail portfolio's revenues. Nonetheless, the revenues from the retail segment are on an improving trajectory, on the back of recovery in footfalls and trading values- give growth and nos of H1 FY2023 of retail segment.

The ratings factor in DCCDL's exposure to geographical concentration risks, with 59% of the total leasable area being concentrated in Gurgaon with a high average rental of Rs. 106 per square feet, resulting in exposure to migration risks of tenants to more competitive micro-markets. Further, the coverage metrics remain sensitive to the movements in interest rates. Nonetheless, ICRA notes that DCCDL has a demonstrated track record of refinancing at competitive interest rates. Further, DCCDL's liquidity remains strong and the company possesses healthy financial flexibility. The ratings also remain constrained on account of exposure to project and marketing risks for the under-development projects; nevertheless the long and established track record of DCCDL in successfully developing and leasing out office and retail space mitigates the risk. The company is expected to incur capex of around Rs. 1,000 crore every year to develop its land bank and expand its portfolio over the medium to long term. ICRA expects that the same would largely be funded through cash flows of the operational properties, as has been the trend in the recent years. Further, higher-than-expected dividends and capex outflows, adversely affecting the company's liquidity will be a key monitorable.

The Stable outlook reflects DCCDL's large portfolio of completed assets with reputed tenant profile, which provide visibility of cash flows and are expected to keep the cash flows and leverage metrics comfortable. Further, the Group has a long and established track record, with robust financial flexibility on the back of strong parentage and comfortable leverage.

Key rating drivers and their description

Credit strengths

Diversified lessee profile, supported by favourable location and high-quality development – Given the quality and favourable location of the developments, many projects like Cyber City, Cyber Park (Gurgaon) and Chennai Special Economic Zone (SEZ) have become associated with major Central Business Districts (CBD) in their respective cities, which contributes to the healthy occupancy across various properties. In addition, the tenant profile constitutes marquee names such as Cognizant, IBM, American Express, EY, KPMG, Concentrix, BA Continuum, TCS, BT Global, WPP, Oracle, Coca Cola, PWC, etc, which are present across various sectors, thus mitigating the sectoral concentration risks to an extent.

Healthy growth in scale along with moderation in leverage expected going forward – 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 as well as ramp-up in the leasing income on the back of waning impact of the Covid-19 pandemic. With 5.3 msf of area under-development in DLF Downtown Gurgaon (phase-II) and DLF Downtown Chennai and additional development potential of around 25.0 msf, the company's cash flows are likely to improve steadily over the long term.

The leverage and debt protection metrics at the consolidated level witnessed improvement in FY2022 and H1FY2023. Further, driven by the expected ramp-up in occupancy due to the waning impact of the pandemic on both office and retail portfolio and commencement of income from the new properties, ICRA expects the NOI to grow by around 15-20% in FY2023, which along with stable debt levels will result in the net debt/NOI below 5 times in FY2023.

Strong liquidity position and refinancing ability – DCCDL's liquidity position is strong, backed by cash and equivalents of around Rs. 1,586 crore (includes DSRA of Rs. 300-400 crore) and undrawn credit lines of Rs. 615 crore as on September 30, 2022. Further, the company is expected to generate healthy cash flows from a diversified portfolio of leased assets to cover its debt obligations, dividends and capex requirements. It enjoys robust financial flexibility on the back of strong parentage, large portfolio, established relationships with reputed tenants, lenders and unencumbered land bank. Further, higher-than-expected dividends and capex outflows, adversely affecting the company's liquidity will be a key monitorable.

Strong promoters with established track record – DCCDL is a JV of DLF Limited and GIC, Singapore. DLF Limited holds 66.67% stake in DCCDL and is one of the largest real estate developers in India and has an established track record of successfully developing and leasing commercial as well as retail assets across multiple geographies. Further, 33% stake is held by GIC, the sovereign wealth fund of Singapore having a track record of over four decades and a wide investment portfolio. 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

Vulnerability to cyclicality and external developments such as Covid-19 pandemic – The Group's portfolio is exposed to the risks from the cyclicality in the sector and vulnerability to external developments such as the Covid-19 pandemic. The occupancy of the portfolio had moderated to 90% as of September 2022, from 95% as of March 2020. The Group's retail portfolio, which stood at 3.9 msf (10% of the total operational leasable area) in Q2 FY2023, had been significantly affected, with malls remaining closed during the lockdown. Further, concessions given to tenants in the retail malls during FY2021 and FY2022 affected the retail portfolio's revenues. However, the retail portfolio has witnessed recovery post removal of restrictions and improved vaccination coverage. The revenues from the retail segment improved to Rs. 351 crore in H1 FY2023 from Rs. 162 crore in H1FY2022, reflecting growth of 117%.

Exposure to geographical concentration risks – DCCDL's leasing portfolio of 39.6 msf is spread across seven cities. However, around 59% of the total leasable area is concentrated in Gurgaon, with a high average rental of Rs. 106 per square feet, resulting in exposure to migration risks of tenants to more competitive micro-markets.

Risks associated with under-construction properties – The current organic development potential with DCCDL is 30.3 msf, of which the ongoing development is of 5.3 msf in Q2 FY2023. The risks are partly offset by the phased construction of the available development potential in line with the market conditions and the adequate pre-leasing tie-ups in the area currently under development.

Liquidity position: Strong

DCCDL's liquidity position is strong, backed by cash and equivalents of around Rs. 1,586 crore (includes DSRA of Rs. 300-400 crore) and undrawn credit lines of Rs. 615 crore as on September 30, 2022. Further, the company is expected to generate healthy cash flows from a diversified portfolio of leased assets to cover its debt obligations, dividends, and capex requirements.

Rating sensitivities

Positive factors – ICRA could upgrade DCCDL's ratings if the company is able to successfully achieve significant ramp-up in the occupancy and the leasing income from the portfolio (including under-development assets), resulting in substantial improvement in the debt protection metrics, while maintaining a strong liquidity position, on a consistent basis. Specific credit metrics that could lead to a rating upgrade include net debt to NOI reducing to below 4.0 times on a sustained basis.

Negative factors – Negative pressure on DCCDL's ratings could arise in case of significant decline in the occupancy or rentals of the completed portfolio impacting the company's debt protection metrics, or in case of higher-than-expected dividends and capex outflows, which adversely affects the company's liquidity and leverage position. Specific credit metrics that could lead to a downgrade of DCCDL's rating include the net debt to NOI increasing above 5.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach - Lease Rental Discounting (LRD) Rating Approach –Consolidation
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. The Group acquired the entire stake in One Horizon Center, Gurgaon, a commercial asset with a leasable area of 0.81 msf in February 2021. Additionally, the operationalisation of Cyber Park, Gurgaon (leasable area of 2.6 msf) and Chennai SEZ Block 11 (leasable area of 0.4 msf) and Block 12 (leasable area of 0.3 msf) and Downtown, Gurgaon (leasable area of 1.7 msf) increased the total leasable operational portfolio to 39.6 msf, of which 90% is leased and another 5.3 msf is under construction as on September 30, 2022.

Key financial indicators

DCCDL Consolidated	FY2021	FY2022	H1FY2023
	Audited	Audited	Provisional
Operating Income (Rs. crore)	4,011.3	4,373.4	2,561.8
PAT (Rs. crore)	899.2	1,014.9	683.5
OPBDIT/OI (%)	75.9%	76.1%	75.7%
PAT/ OI (%)	22.4%	23.2%	26.7%
Total Outside Liabilities/Tangible Net Worth (times)	3.9	3.6	-
Total Debt/OPBDIT (times)	6.8	6.1	-
Interest Coverage (times)	1.7	2.2	-

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument				Current Rating (FY2023)	Chronology of Rating History for the past 3 years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022			Date & Rating in FY2021			Date & Rating in FY2020	
					14-Nov-2022	7-Mar-2022	28-Dec-2021	30-Sep-2021	5-Feb- 2021	22-Jan-2021	26-June-2020	17-Sep-19	22-May-19
1	Non-convertible Debentures	Long Term	1282.37	1278	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
2	Non-convertible Debentures	Long Term	1150.00	-	[ICRA]AA (Stable)	-	-	-	-	-	-	-	-
3	Fund-based – Term Loan	Long Term	8437.37	7425	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
4	Short-term Non-fund Based	Short Term	294.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+;	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial Paper	Short Term	-	-	-	-	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible Debentures	Very Simple
Fund-based - Term Loans	Simple
Non-fund Based - Working Capital Facilities/Bank Guarantee	Very 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 analysing 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: [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	6.95%	27-Jan-31	668.57	[ICRA]AA (Stable)
INE186K07031	Non-convertible Debentures -2	4-Feb-21	7.25%	31-Jan-24	613.80	[ICRA]AA (Stable)
Proposed	Non-convertible Debentures -3	-	-	-	1150.0	[ICRA]AA (Stable)
NA	Term Loan 1	15-Oct-20	-	30-Sep-35	2307.0	[ICRA]AA (Stable)
NA	Term Loan 2	1-Jan-21	-	31-Dec-32	1901.0	[ICRA]AA (Stable)
NA	Term Loan 3	10-Mar-17	-	9- Mar-26	720.0	[ICRA]AA (Stable)
NA	Term Loan 4	27-Jan-21	-	31-Jan- 31	658.0	[ICRA]AA (Stable)
NA	Term Loan 5	29-Jan-21	-	31-Dec-32	523.0	[ICRA]AA (Stable)
NA	Term Loan 6	30-Aug-21	-	30-Aug-33	425.0	[ICRA]AA (Stable)
NA	Term Loan 8	27-Dec-17	-	1-Dec-29	213.0	[ICRA]AA (Stable)
NA	Term Loan 9	29-July-20	-	30-Nov-28	252.0	[ICRA]AA (Stable)
NA	Term Loan 10	14-Oct-21	-	1-Feb-30	196.0	[ICRA]AA (Stable)
NA	Term Loan 11	4-Aug-21	-	15-Aug-33	125.0	[ICRA]AA (Stable)
NA	Term Loan 12	4-Aug-21	-	15-Aug-33	125.0	[ICRA]AA (Stable)
NA	Term Loan 13	24-Aug-21	-	24-Aug-28	438.0	[ICRA]AA (Stable)
NA	Term Loan – Unallocated	-	-	-	554.37	[ICRA]AA (Stable)
NA	Bank Guarantee	-	-	-	294	[ICRA]A1+

**Weighted average rate of interest is 7.52% as on September 30, 2022*
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	100%	Full Consolidated
DLF Info Park Developers (Chennai) Ltd	99.99%	Full Consolidated
Paliwal Real Estate Limited	100%	Full Consolidated
DLF Lands India Private Limited	100%	Full Consolidated
DLF Info City Chennai Limited	100%	Full Consolidated

Source: *Annual report FY2022*

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

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