March 28, 2023

DLF Promenade Limited: Rating assigned for bank facility, and reaffirmed for existing NCD; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based/Non fund based – Others	-	1.00	[ICRA] AA (Positive); Rating assigned
Non-Convertible Debentures	352.00	325.86	[ICRA] AA (Positive); Ratings reaffirmed; outlook revised to Positive from Stable
Total	**352.00**	**326.86**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of DLF Cyber City Developers Limited (DCCDL) and its subsidiaries[1] collectively referred to as the consolidated entity or the Group, given the close operational, financial and managerial linkages between the Group entities, shared brand name along with a common treasury team.

The revision in rating outlook to Positive factors in the expected improvement in the Group's net operating income[2] (NOI) over the medium term, backed by steady ramp-up in occupancy in the existing properties and commencement of rentals from the new properties with healthy pre-leasing. Moreover, the retail leasing segment has surpassed pre-covid levels in 9M FY2023. The Group is expected to maintain consolidated gross debt at around Rs. 20,000 crore in the medium term. ICRA expects the NOI to grow by 17-19% in FY2023 and ~11-13% in FY2024 on a year-on-year (YoY) basis. Consequently, leverage as measured by net debt[3] to NOI is expected to improve to around 5.0 times as on March 2023 (PY: ~6 times) and further to around 4.5 times by March 2024.

DCCDL operates one of the largest commercial real estate portfolios in the country spread across office (35.7 million square feet (msf), 90% of total leasable area) and retail segments (3.9 msf, 10% of total leasable area) in attractive locations as of December 2022. The under-construction portfolio stood at 5.4 msf with an additional development potential of around 25.0 msf, as on the same date. The Group's portfolio is spread across major cities such as Gurugram, Chennai, Kolkata, Hyderabad, Noida and Chandigarh with a reputed and diversified tenant mix comprising leading multi-national and Indian corporates, wherein the top 10 tenants contribute to ~25% of the revenues. The retail assets are situated in prominent micromarkets of the respective cities, thereby enhancing their marketability. DCCDL has healthy committed occupancy of the completed area at 90% as of December 2022.

The ratings continue to 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 strong financial flexibility on the back of parentage, large portfolio, established relationships with reputed tenants, and lenders.

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[1] Please refer to analytical approach on page 3 and Annexure II on page 6 for list of entities consolidated

[2] Net operating income (NOI) is defined as lease rental income and maintenance income less maintenance, property tax, insurance and any other direct expenses associated with the property

[3] Net debt is defined as total external debt minus cash and cash equivalents

The ratings, however, remain constrained by DCCDL's exposure to geographical concentration risks, with 58% of the commercial leasable area being concentrated in Gurugram with high average rentals, resulting in exposure to migration risks of tenants to more competitive micromarkets. The ratings factor in the vulnerability of the portfolio to the lease expiry risk and market risks. The risk is partially mitigated by reputed tenants and lower-than-market rentals. The ratings note the moderate debt coverage metrics and exposure to refinancing risk as a part of the consolidated debt is unamortising in nature. However, the risk is partially mitigated by the comfortable leverage and the Group's strong financial flexibility. DCDDL has a demonstrated track record of timely refinancing at competitive interest rates in the past. Further, the debt coverage metrics are exposed to interest rate risk. In addition, the cyclical nature of the sector and vulnerability to external developments constrain the ratings. The ratings consider the marketing risks for the under-development projects. Nevertheless, DCCDL's long and established track record in successfully developing and leasing out office and retail space mitigates the risk. ICRA expects the dependence on incremental debt for capex to be limited, and the capex to be funded through the operational surplus. Nonetheless, higher-than-expected dividends and capex outflows, adversely affecting the Group's liquidity will be key monitorables.

Key rating drivers and their description

Credit strengths

Healthy growth in scale along with and resultant improvement in leverage levels – DCCDL operates one of the largest commercial real estate portfolios in the country spread across office and retail segments. Its NOI is expected to display healthy growth over the near-to-medium term, backed by the steady ramp-up in occupancy in the existing properties and commencement of rentals from the new properties with healthy pre-leasing. Moreover, the retail leasing segment has surpassed the pre-Covid levels in 9M FY2023. The Group's consolidated gross debt is likely to be around Rs. 20,000 crores in the medium term. ICRA expects the NOI to grow by 17-19% in FY2023 and ~11-13% in FY2024 on a YoY basis. Consequently, the leverage as measured by net debt/NOI is estimated to improve to around 5.0 times as of March 2023 (PY: ~6 times) and further to around 4.5 times by March 2024.

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 (Gurugram) 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, etc, which are present across various sectors, thus mitigating the sectoral concentration risk to an extent.

Strong promoters with established track record – ICRA derives comfort from DCCDL's strong parentage, with 66.67% stake held by DLF and 33.33% by the 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 strong financial flexibility on the back of its parentage, large portfolio, established relationships with reputed tenants, and lenders.

Credit challenges

Exposure to refinancing risk – Part of the consolidated Group debt is unamortising in nature, with bullet repayments at the end of their maturity, thereby exposing it to refinancing risk. However, the risk is partially mitigated by the comfortable leverage and the Group's strong financial flexibility. DCDDL has a demonstrated track record of timely refinancing at competitive interest rates in the past. Further, higher-than-expected dividends and capex outflows, adversely affecting the Group's liquidity will be a key monitorable.

Exposure to geographical concentration risks and market risks associated with ongoing development of commercial office space – DCCDL's leasing portfolio of 39.6 msf is spread across seven cities. However, around 58% of the total leasable area is concentrated in Gurgaon, with a high average rental, resulting in exposure to migration risks of tenants to more competitive micro markets. Moreover, the Group had under-development commercial office projects of 5.4 msf as of December 2022, exposing it to execution and market risks.

Vulnerability of commercial real estate sector to cyclicality and external developments - The Group's portfolio is exposed to risks arising from the cyclicality in the sector and vulnerability to exogenous shocks such as the Covid-19 pandemic, which could impact the cash flows. Further, the debt coverage metrics are exposed to the interest rate risk.

Liquidity position: Strong

DCCDL's liquidity position is strong, backed by cash and equivalents of around Rs. 2,092 crores (includes encumbered balances of Rs. 145 crore) and undrawn credit lines of Rs. 525 crores as on December 31, 2022. Additionally, the likely healthy cash flows from a diversified portfolio are expected 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 a significant ramp-up in occupancy and 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 a significant decline in the occupancy or rentals of the completed portfolio impacting the 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 rating, ICRA has consolidated the operational and financial profile of DCCDL and its subsidiaries given the close business, financial and managerial linkages between the Group entities, shared brand name along with a common treasury team.

About the company

DLF Promenade Limited (DPL) was incorporated in 1999. It developed a retail mall in Vasant Kunj under the brand name DLF Promenade. The leasable area of the mall is 0.5 msf. The mall houses lifestyle brands with anchor tenants.

About DCCDL

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 company operates one of the largest commercial real estate portfolios in the country spread across 39.6 msf of area at a consolidated level with occupancy of 90% as of December 2022. The assets are spread across major cities such as Gurugram, Chennai, Kolkata, Hyderabad, Noida, and Chandigarh. Apart from this, it has 5.4 msf of under-development projects in Chennai and Gurugram as on December 31, 2022.

Key financial indicators (audited)

DCCDL – Consolidated	FY2021	FY2022	9M FY2023
Operating income	4,011.3	4,373.4	3,887.5
PAT	899.2	1,014.9	1,044.4
OPBDIT/OI	75.9%	76.1%	76.2%
PAT/OI	22.4%	23.2%	26.9%
Total outside liabilities/Tangible net worth (times)	3.9	3.6	3.6
Total debt/OPBDIT (times)	6.8	6.1	5.2
Interest coverage (times)	1.7	2.2	2.6

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; the above financial numbers and ratios reflect the analytical adjustments made by ICRA and may not be comparable with the reported financials, 9MFY2023 are unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2023 (Rs. crore)	Current Rating (FY2023)	Chronology of Rating History for the past 3 years				
					Date & Rating in FY2023	Date & Rating in FY2022			Date & Rating in FY2021	Date & Rating in FY2020
					March 28, 2023	Mar 07, 2022	Sep 30, 2021	June 30, 2021	June 26, 2020	Jun 12, 2019
1	Long term – Fund based/Non fund based – Others	Long Term	1.00	-	[ICRA]AA (Positive)	-	-		-	-
2	NCD	Long Term	325.86	325.86	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Non-Convertible Debentures	Simple
Long term – Fund based/Non fund based – Others	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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
INE865N07026	NCD	10-Jun-19	9.25%	FY2029	325.86	[ICRA]AA (Positive)
NA	Long term – Fund based/Non fund based – Others	January 2021	-	-	1.00	[ICRA]AA (Positive)

Source: Company.

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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 Consolidation
DLF Info Park Developers (Chennai) Ltd	99.99%	Full Consolidation
Paliwal Real Estate Limited	100%	Full Consolidation
DLF Lands India Private Limited	100%	Full Consolidation
DLF Info City Chennai Limited	100%	Full Consolidation

Source: ICRA Research; #merged with DLF Emporio Limited

ANALYST CONTACTS

Anupama Reddy
+91 40 4547 4829
anupama.reddy@icraindia.com

Neha Mittal
+91 124-4545 365
neha.mittal@icraindia.com

Sugandha Mahajan
+91 124-4545 398
sugandha.arora@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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