December 27, 2023

# Fairleaf Real Estate Private Limited: Rating upgraded to [ICRA]AA+; outlook revised to Stable from Positive

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term – Fund-based – Term loans** | 184.54 | 184.54 | [ICRA]AA+; upgraded from [ICRA]AA with change in outlook to Stable from Positive |
| **Total** | **184.54** | **184.54** | |

**Instrument details are provided in Annexure-I*

## Rationale

ICRA has taken a consolidated view of DLF Cyber City Developers Limited (DCCDL) and its subsidiaries collectively referred to as DCCDL or 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 rating upgrade factors in the Group's sustained growth in scale and improvement in the leverage position. DCCDL's rentals are estimated to grow by 11-13% in FY2024, driven primarily by rentals from new assets (for full year), which were operational only for a few months during the previous year, higher leased area by around 4% and steady ramp-up in the occupancy levels to 92% as of September 2023 (90% as of December 2022). Further, ICRA expects the NOI to increase by 4-5% in FY2025, aided by commencement of rentals from the new assets of around 3.3 msf scheduled to be operational during the year. The gross debt reduced to Rs. 18,962 crore as of November 2023 from Rs. 20,896 crore as of March 2023. ICRA expects the dependence on incremental debt for ongoing capex to be limited, and the capex to be funded through the operational surplus. The gross debt is expected to be around Rs. 19,200 – Rs. 19,600 crore over the medium term. Consequently, the leverage as measured by gross debt to NOI is estimated to improve to around 4.0 times as of March 2025 (Net debt/NOI to remain at around 4.1 times as on March 2024) from 5.6 times as of March 2023.

The Group operates one of the largest commercial real estate portfolios in the country spread across office (35.6 million square feet (msf), 90% of total leasable area) and retail segments (4.1 msf, 10% of total leasable area) in attractive locations as of September 2023. The under-construction portfolio stood at 5.3 msf with healthy pre-leasing at 89% as of September 2023 compared to 47% as of December 2022, with an additional development potential of around 25.0 msf, as of September 2023. The Group's portfolio is spread across 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 as of September 2023. The retail assets are situated in prominent micromarkets of the respective cities, thereby enhancing their marketability.

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. It 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. The Group enjoys strong financial flexibility on the back of its parentage, large portfolio, established relationships with reputed tenants, and lenders.

The ratings, however, remain constrained by the Group's exposure to geographical concentration risks, with 59% of the leased area as of September 2023 concentrated in Gurugram with high average rentals for non-SEZ assets, 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 and market risks. The risk is partially mitigated by reputed tenants and lower-than-market rentals for the SEZ assets.

The ratings note the 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. The Group 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. The cyclical nature of the sector and vulnerability to external developments constrain the ratings. The ratings consider the market risks for the under-development projects. Nevertheless, the healthy pre-leasing and the Group's long and established track record in successfully developing and leasing out office as well as retail space mitigate the risk. Any large dividends or capex outflows adversely affecting the Group's liquidity will be the key monitorable.

The Stable Outlook reflects ICRA's opinion that the Group will benefit from the large portfolio of completed assets with reputed tenant profile and healthy occupancy levels, comfortable leverage position and strong financial flexibility.

## Key rating drivers and their description

### Credit strengths

**Sustained growth in scale and resultant improvement in leverage –** The Group operates one of the largest commercial real estate portfolios in the country spread across office (35.6 msf, 90% of total leasable area) and retail segments (4.1 msf, 10% of total leasable area) in attractive locations as of September 2023. The under-construction portfolio stood at 5.3 msf with healthy pre-leasing at 89% as of September 2023 compared to 47% as of December 2022, with an additional development potential of around 25.0 msf, as of September 2023. DCCDL's rentals are estimated to increase by 11-13% in FY2024, driven primarily by rentals from new assets (for full year), which were operational only for a few months in the previous year, higher leased area by around 4% and steady ramp-up in the occupancy levels to 92% as of September 2023 (90% as of December 2022). ICRA expects the NOI to grow by 4-5% in FY2025, aided by commencement of rentals from the new assets of around 3.3 msf scheduled to be operational during the year. The gross debt reduced to Rs. 18,962 crore as of November 2023 from Rs. 20,896 crore as of March 2023. ICRA expects the dependence on incremental debt for the ongoing capex to be limited, and the capex to be funded through the operational surplus. The gross debt is expected to be around Rs. 19,200 – Rs. 19,600 crore over the medium term. Consequently, the leverage as measured by gross debt to NOI is estimated to improve to around 4.0 times as of March 2025 (Net debt/NOI to remain at around 4.1 times as on March 2024) from 5.6 times as of March 2023.

**Diversified lessee profile, supported by favourable location and high quality development –** 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 as of September 2023. The retail assets are situated in prominent micromarkets of the respective cities, thereby enhancing their marketability.

**Strong promoters with established track record –** ICRA derives 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. It 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 a strong investment portfolio. The Group 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 debt is unamortising in nature. However, the risk is partially mitigated by the comfortable leverage and the Group's strong financial flexibility. The Group has a demonstrated track record of timely refinancing at competitive interest rates in the past. Further, any large dividends or capex outflows adversely affecting the Group's liquidity will be the key monitorable.

**Exposure to geographical concentration and market risks associated with ongoing development –** The Group's leasing portfolio of 39.7 msf is spread across seven cities. However, around 59% of the leased area as of September 2023 is concentrated in Gurugram with high average rentals for the non-SEZ assets, resulting in exposure to migration risks of tenants to more competitive micromarkets. Moreover, the Group had under-development commercial office projects of 5.3 msf as of September 2023, exposing it to execution and residual market risks. Nevertheless, the healthy pre-leasing at 89% as of September 2023 and the Group's long and established track record in successfully developing and leasing out office as well as retail space mitigate the risk.

**Vulnerability of commercial real estate sector to cyclicality –** 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

The Group's liquidity position is strong, backed by cash and equivalents of around Rs. 750 crore (includes encumbered balances in the form of DSRA of around Rs. 326 crore) as on November 30, 2023. Additionally, the likely healthy cash flows from a diversified portfolio are expected to cover its interest obligations, dividends and capex requirements, while majority of the scheduled principal repayments are estimated to be refinanced in the medium term. The Group has refinanced loans of around Rs. 4,700 crore during April 2023 till November2023 and plans to refinance NCD of around Rs. 600 crore in January 2024.

## Rating sensitivities

**Positive factors –** ICRA could upgrade the ratings if the Group is able to successfully achieve significant ramp-up in occupancy and leasing income from the portfolio (including under-development assets), resulting in a 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 gross debt to NOI reducing to below 2.5 times on a sustained basis.

**Negative factors –** Negative pressure on the 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 any large dividends or capex outflows, which adversely affects the company's liquidity and leverage position. Specific credit metrics that could lead to a downgrade of DCCDL Group's rating include the gross debt to NOI increasing above 5.0 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Debt Backed by Lease Rentals |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | For arriving at the ratings, 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

Fairleaf Real Estate Private Limited (FREPL) (erstwhile YG Realty Private Limited) was initially a 50:50 joint venture (JV) between Hines India Fund and DLF Limited (through its wholly-owned subsidiary, DLF Home Developers Limited). With effect from October 10, 2019, DLF Limited transferred its 50% stake in FREPL to DCCDL as a part of the settlement of outstanding inter-Group advances. Hines India Fund continues to hold a 50% stake in the JV through its step-down subsidiary CCC Projects Limited till February 18, 2021. DCCDL has the right of first refusal on buying Hines' stake in FREPL. DCCDL executed the ROFR on the Hines Stake and acquired the stake at a consideration of Rs. 779.40 crore. With effect from February 18, 2021, FREPL is a wholly owned subsidiary of DCCDL.

FREPL has developed a city centre office tower project, One Horizon Center, and now operates the same. The project has a leasable area of 0.8 msf, with around 99% leased as of September 2023.

## About DLF Cyber City Developers Limited

DLF Cyber City Developers Limited 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 39.7 msf of area at the consolidated level (along with its subsidiaries) with an occupancy of 92% as of September 2023. The assets are spread across Gurugram, Chennai, Kolkata, Hyderabad, Noida, and Chandigarh. Apart from this, it has 5.3 msf of under-development projects in Chennai and Gurugram as on September 30, 2023.

### Key financial indicators (audited)

| DCCDL - Consolidated | FY2022 | FY2023 |
|---|---|---|
| **Operating income** | 4,373.4 | 5,269.2 |
| **PAT** | 1,014.9 | 1,396.1 |
| **OPBDIT/OI** | 76.1% | 75.9% |
| **PAT/OI** | 23.2% | 26.5% |
| **Total outside liabilities/Tangible net worth (times)** | 3.6 | 3.8 |
| **Total debt/OPBDIT (times)** | 6.1 | 5.2 |
| **Interest coverage (times)** | 2.2 | 2.6 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore*

*Source: Company data*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of Rating History for the Past 3 Years | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as on November 30, 2023 (Rs. crore) | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 | | Date & Rating in FY2021 | |
| | | | | | Dec 27, 2023 | Mar 28, 2023 | Mar 7, 2022 | Sep 30, 2021 | Mar 9, 2021 | Nov 13, 2020 |
| 1 | **Term loans** | Long Term | 184.54 | 119.0 | [ICRA]AA+ (Stable) | [ICRA]AA (Positive) | [ICRA]AA (Stable) | [ICRA]AA- (Stable) | [ICRA]AA- (Stable) | [ICRA]A+ (Stable) |
| 2 | **Unallocated limits** | Long Term | - | - | - | - | [ICRA]AA (Stable) | [ICRA]AA- (Stable) | [ICRA]AA- (Stable) | [ICRA]A+ (Stable) |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term – Fund-based – Term loans** | 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 | Instrument Name | Date of Issuance/ Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Term loans** | March 2021 | - | FY2034 | 184.54 | [ICRA]AA+ (Stable) |

*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: Company data, ICRA research*

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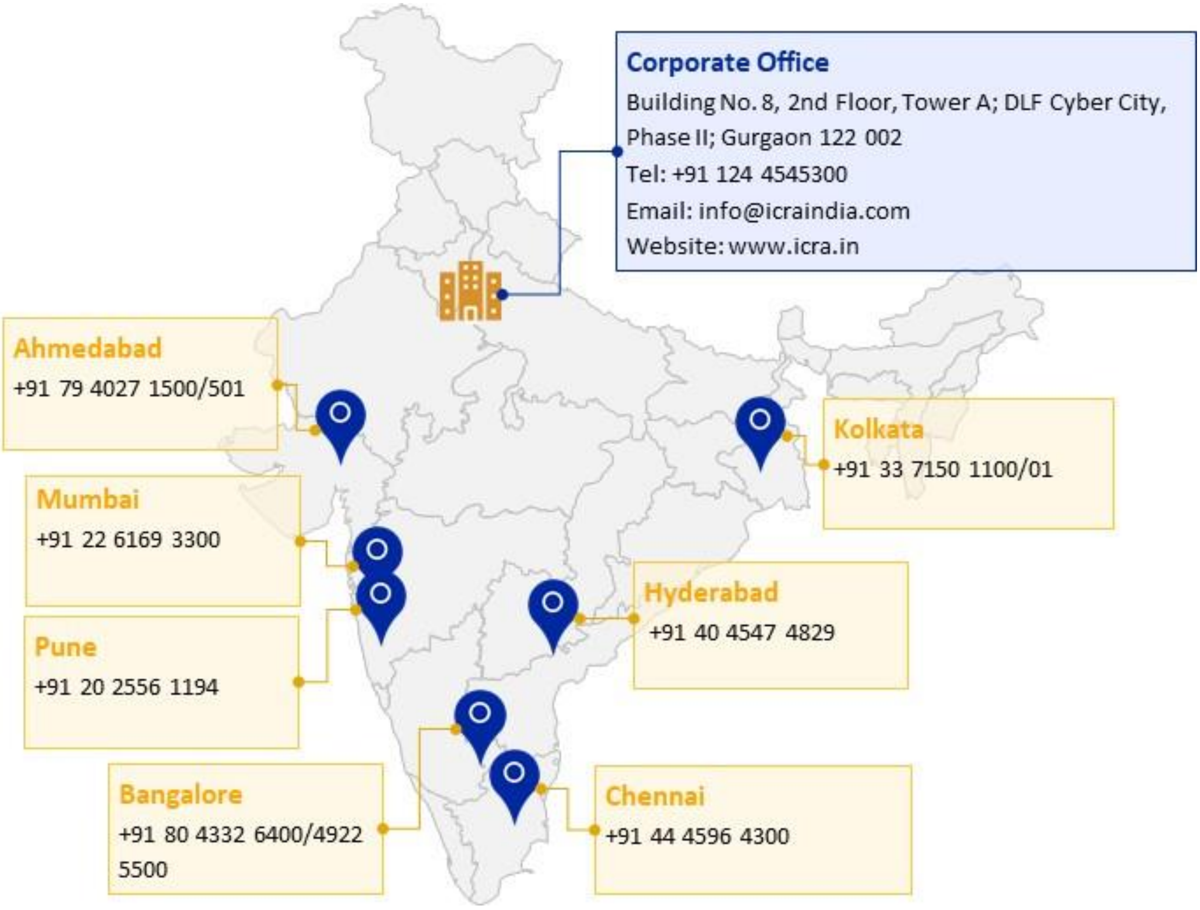



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