

September 30, 2021 ^(Revised)

DLF Cyber City Developers Limited: [ICRA]AA-(Stable)/ A1+; reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	1,500	1301.0	[ICRA]AA- (Stable); Reaffirmed
Long-term Fund based	9,478.1	8775.0	[ICRA]AA- (Stable); Reaffirmed
Short-term Fund based	300.0	300.0	[ICRA]A1+; Reaffirmed
Short-term Non-fund based	200.0	294.0	[ICRA]A1+; Reaffirmed
Commercial Paper	1,000.0	1,000.0	[ICRA]A1+; Reaffirmed
Total	12,478.0	11,647.0	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the consistent growth in DLF Cyber City Developers Limited (DCCDL's) scale of operations, with the total operational leasable area of the group increasing from 30.3 mn. sq. ft. as on March 2020 to 34.3 mn. sq. ft. as on June 30, 2021, post commencement of operations at Cyber Park, Gurgaon and Chennai Block – 11 and acquisition of entire stake of the JV partner (Hines Group) in One Horizon Center (OHC), Gurgaon. At present, DCCDL operates one of the largest commercial portfolios in the country spread across commercial (30.4 mn. sq. ft., 89% of total leasable area) and retail portfolio (4.0 mn. sq. ft., 11% of total leasable area). The portfolio is spread across seven states with major concentration in Gurgaon (59% of the leasable area is located in Gurgaon), followed by Chennai, Delhi, Hyderabad, Kolkata, Chandigarh and Noida. Going forward, additional growth of 4.5 mn. sq. ft. is expected in DCCDL's leasable area, given the ongoing construction of Downtown Gurgaon (leasable area of 1.5 mn. sq. ft.) which will become operational in February-March 2022 in phase wise manner and Downtown Chennai (3.0 mn. sq. ft.) will be operational towards end of FY2023. ICRA continues to draw comfort from the presence of unencumbered land bank and available headroom to raise the low-cost LRD loans. Further, DCCDL has robust liquidity position, as reflected by the free cash and liquid balances of around Rs. 1,318 crore as on June 30, 2021 and undrawn credit lines of Rs 425.0 crore.

The rating derives comfort from DCCDL's strong parentage, with 66.67% stake held by DLF Limited and 33.33% by 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 and retail assets across multiple geographies while GIC is the sovereign wealth fund of Singapore having a track record of four decades and strong investment portfolio. The reaffirmation also factors in DCCDL's strong asset portfolio, which comprises of diverse, high quality properties at favourable locations, which have attracted reputed tenants. DCCDL enjoys robust financial flexibility on the back of strong parentage.

However, the ratings are constrained by the moderation of the office occupancy to 86% as in June, 2021, from 95% in March-2020, due to tenants either surrendering / exiting or non renewal after term expiry and increase timeframes to re-lease the space due to impact of Covid-19. Additionally, inflows from the Group's retail portfolio, which stood at 4.0 mn. sq. ft. (11% of the total operational leasable area) as of June 2021, have been significantly impacted, with closure of malls during the lockdown period. In FY2021, DCCDL has given waivers to its lessees in the retail segment. In Q1FY2022 also the group has given waivers to retail tenants till mid-June, 2021 due to the lockdown and imposition of restrictions across various states due to second wave of the pandemic, which has impacted the retail portfolio's revenues and cash accruals for Q1FY2022. However, retail portfolio is witnessing uptick/recovery upon uplifting of restrictions and sped up vaccination drive.

Going forward, DCCDL's is expected to benefit from the normalcy returning to retail portfolio and increase in offices rental on account of new assets getting operational (Downtown Gurugram and Block 12 Chennai) and Cyberpark revenues reaching optimum levels. The ability to increase the occupancy levels in its operational and upcoming commercial properties and consequent improvement in leverage and coverage ratios will remain a key credit monitorable. Adoption of work from home by majority of the tenants and cost rationalization measures by certain tenants has resulted in pressure on occupancy metrics in recent quarters. Recovery in new leasing transactions as corporates resume work from office and the consequent impact on DCCDL's occupancy levels will be a key rating monitorable.

The rating factors in DCCDL's exposure to geographical concentration risks, with 59% of the commercial leasable area being concentrated in Gurgaon with a high average rental of Rs. 106 per sq. ft., resulting in exposure to migration risks of tenants to more competitive micro-markets. The ratings also factor in the sensitivity of the coverage metrics to interest rate risks. ICRA notes that DCCDL has refinanced certain loans at lower interest rates resulting in reduction of its weighted average cost of debt to 7.42% as in June 2021, from 8.90% in March 2020. 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. DCCDL has ongoing construction of 4.5 mn sq. ft. which has pre-leasing of 0.8 mn sq. ft. in Downtown Chennai and 0.5 mn sq. ft. in Downtown Gurugram and significant part of the cost on Downtown Gurugram has already been incurred.

The stable outlook reflects DCCDL's vast portfolio of completed assets with reputed tenant profile, which are expected to keep the cash flows comfortable, notwithstanding the adverse impact of Covid-19 on occupancy in office segment and retail rentals. Further, the group has a long and established track record in commercial as well as retail segments of real estate and also has robust financial flexibility on the back of strong parentage.

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 IBM, KPMG, Oracle, Coca Cola, and American Express, Concentrix, PWC etc., which are present across various sectors, thus mitigating sectoral-concentration risks to an extent. At present, DCCDL operates one of the largest commercial portfolio in the country with diversity across commercial (30.4 mn. sq. ft.) and retail portfolio (4.0 mn. sq. ft.).

Healthy increase in leasable area 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 capex of 4.5 mn. sq. ft. DCCDL's consolidated scale of operation has increased to 34.2 mn. sq. ft. as on March 31, 2021 from 30.3 mn. sq. ft. as on March 2020, post commencement of operations at Cyber Park, Gurgaon and Chennai Block – 11. The portfolio is spread across seven states with major concentration in Gurgaon (59% of the leasable area is located in Gurgaon), followed by Chennai, Delhi, Hyderabad, Kolkata, Chandigarh and Noida. Going forward, additional growth of 4.5 mn. sq. ft. is expected in DCCDL's leasable area, given the ongoing construction of Downtown Gurgaon (leasable area of 1.5 mn. sq. ft.) which will become operational in February-March 2022 in phase wise manner and Downtown Chennai (3.0 mn. sq. ft.) will be operational towards end of FY2023. Nevertheless, risks pertaining to the structural changes brought about by the Covid-19 pandemic, resulting in possibility of further rationalization of office space by corporates remain as a key sensitivity.

Strong liquidity position and refinancing ability - 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 and free cash and liquid balances stood at around Rs. 1,318 crore as on June 30, 2021 (includes DSRA of Rs 300-400 crore). The refinancing capability

remains strong supported by unencumbered operational rental generating assets, low cost land bank and strong banking relationships. Further, DCCDL also has access to undrawn lines of Rs 425.0 crore as on August 31, 2021.

Strong promoters with established track record – DCCDL is a JV of DLF Limited and GIC, Singapore. DLF Limited holds 66.67% of 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 and retail assets across multiple geographies. Further, 33% stake is held by GIC, the sovereign wealth fund of Singapore having a track record of four decades and 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. DCCDL enjoys robust financial flexibility on the back of strong parentage.

Credit challenges

Decline in occupancy due to impact of Covid-19 - Occupancy in DCCDL’s office leasing portfolio moderated to 86% in June 2021 from 95% in March 2020, due to tenants either surrendering / exiting or non renewal after term expiry and increase timeframes to re-lease the space due to impact of Covid-19. The Group’s retail portfolio, which stood at 4.0 mn. sq. ft. (11% of the total operational leasable area) as of June 2021, has been significantly impacted, with malls having been closed during the lock-down period. Further, in Q1FY2022 also the group has given waivers to retail tenants till mid-June, 2021 due to the lockdown and imposition of restrictions across various states due to second wave of the pandemic, which has impacted the retail portfolio’s revenues and cash accruals for Q1FY2022. However, retail portfolio is witnessing uptick/recovery upon uplifting of restrictions and sped up vaccination drive.

Going forward, DCCDL’s ability to increase the occupancy levels in its operational and upcoming commercial properties and consequent improvement in leverage and coverage ratios will remain a key credit monitorable

Exposure to geographical concentration risks - DCCDL’s leasing portfolio of 34.2 mn sq ft. is largely spread across six cities. However, around 59% of the leasable area is concentrated in Gurgaon, with a high average rental of Rs. 106 per sft, 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 17.8 mn sq ft, of which the ongoing development is of 4.5 mn sq.ft as in June 2021. 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 overall liquidity profile remains strong, aided by adequate cash flow generation from rentals being generated from a diversified portfolio of leased office assets. The repayments due for FY2022 is Rs 1,060 crore of which Rs. 272 crore has been repaid in Q1FY2022 and the remaining amount is expected to be comfortably met through strong cash flow from operations; moreover, the company has liquidity buffer in the form of free cash and liquid balances of around Rs. 1,318 crore (includes DSRA of Rs 300-400 crore) as on June 30, 2021 and currently has undrawn credit lines of Rs 425.0 crore, which provides comfort.

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 increase in the occupancy in the completed portfolio and/or faster-than-expected construction and leasing in the development portfolio, or if it is able to reduce its leverage ratios significantly. Specific credit metrics that could lead to an upgrade of DCCDL’s rating include net debt to NOI reducing to 5.0 times.

Negative factors – Negative pressure on DCCDL’s rating could arise in case of further decline in the occupancy in the completed portfolio, or prolonged delay in the recovery of the rentals and occupancies. Specific credit metrics that could lead to a downgrade of DCCDL’s rating include the net debt to NOI increasing above 6.25 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals 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 mn. sq. ft. in February 2021, operationalization of Cyber Park, Gurgaon (leasable area of 2.6 mn. sq. ft) and Chennai SEZ Block 11 (leasable area of 0.4 mn. sq. ft) which has led to increase the leasable operational portfolio to 34.2 mn. sq. ft., of which 87% is leased and another 4.9 mnsqft under construction as on June 30, 2021.

Key financial indicators (audited)

DCCDL Consolidated	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	3,958.80	4,435.58	4,011.3
PAT (Rs. crore)	1,399.56	1,313.81	899.2
OPBDIT/OI (%)	67.31%	69.26%	75.9%
PAT/ OI (%)	35.4%	29.6%	22.4%
Total Outside Liabilities/Tangible Net Worth (times)	2.58	4.21	3.9
Total Debt/OPBDIT (times)	6.32	6.40	6.8
Interest Coverage (times)	1.55	1.79	1.7

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	Type	Current Rating (FY2022)			Chronology of Rating History for the past 3 years											
		Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021				Date & Rating in FY2020		Date & Rating in FY2020		Date & Rating in FY2019		Date & Rating in FY2018	
					30-Sep--2021	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	1301	1301	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-	-	-	-	-	-	-	-	
2 Fund Based	Long Term	8775	8775	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+(Stable)	[ICRA]A(SO)(Stable)	[ICRA]A(SO)(Stable)	[ICRA]A(SO)(Stable)		
3 Commercial Paper	Short Term	1000	1000	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-		
4 Short-term fund-based	Short Term	300	300	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+;	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A+(Positive)	-	-	-	-		
5 Short-term non-fund based	Short Term	294	294	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+;	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	-	-	-		

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-Jan-31	685.0	[ICRA]AA- (Stable); reaffirmed
INE186K07031	Non-convertible Debentures -2	4-Feb-21	-	31-Jan-24	616.0	[ICRA]AA- (Stable); reaffirmed
NA	Term Loan 1	29-Oct-18	-	15-Oct-27	899	[ICRA]AA-(Stable); reaffirmed/ assigned
NA	Term Loan 2	16-Jan-20	-	15-Oct-27	139	[ICRA]AA-(Stable); reaffirmed/ assigned
NA	Term Loan 3	10-Mar-17	-	9-Mar-26	732	[ICRA]AA-(Stable); reaffirmed/ assigned
NA	Term Loan 4	15-Oct-20	-	30-Sep-35	2,349	[ICRA]AA-(Stable); reaffirmed/ assigned
NA	Term Loan 5	24-Mar-17	-	1-Mar-29	183	[ICRA]AA-(Stable); reaffirmed/ assigned
NA	Term Loan 6	29-Jun-19	-	1-Mar-29	178	[ICRA]AA-(Stable); reaffirmed/ assigned
NA	Term Loan 7	30-Mar-17	-	1-Mar-29	456	[ICRA]AA-(Stable); reaffirmed/ assigned
NA	Term Loan 8	1-Jun-17	-	1-Mar-29	274	[ICRA]AA-(Stable); reaffirmed/ assigned
NA	Term Loan 9	29-Mar-17	-	1-Mar-29	187	[ICRA]AA-(Stable); reaffirmed/ assigned
NA	Term Loan 10	20-Jun-18	-	1-Mar-29	46	[ICRA]AA-(Stable); reaffirmed/ assigned
NA	Term Loan 11	31-Mar-17	-	1-Mar-33	537	[ICRA]AA-(Stable); reaffirmed/ assigned
NA	Term Loan 12	27-Dec-17	-	1-Dec-29	244	[ICRA]AA-(Stable); reaffirmed/ assigned
NA	Term Loan 13	30-Mar-17	-	31-Mar-29	659	[ICRA]AA-(Stable); reaffirmed/ assigned
NA	Term Loan 14	29-Jul-20	-	30-Nov-28	270	[ICRA]AA-(Stable); reaffirmed/ assigned
NA	Term Loan 15	1-Jan-21	-	31-Dec-32	1,372	[ICRA]AA-(Stable); reaffirmed/ assigned
NA	Term Loan 16	Aug-21	-	NA	250	[ICRA]AA-(Stable); reaffirmed/ assigned
NA	Short-term fund-based	24-Mar-17	-	1-Mar-29	300	[ICRA]A1+; reaffirmed
NA	Bank Guarantee	-	-	-	294	[ICRA]A1+; reaffirmed
NA	Commercial Paper	Not placed yet	-	-	1,000	[ICRA]A1+; outstanding

*weighted average rate of interest is 7.42% as on June 30, 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
<u>Subsidiary companies</u>		
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

Company Name	DCCDL Ownership	Consolidation Approach
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

Source: Annual report FY2021

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

Corrigendum

Document dated September 30, 2021 has been corrected with revision as detailed below:

Editorial change in the credit strength section on page 2.

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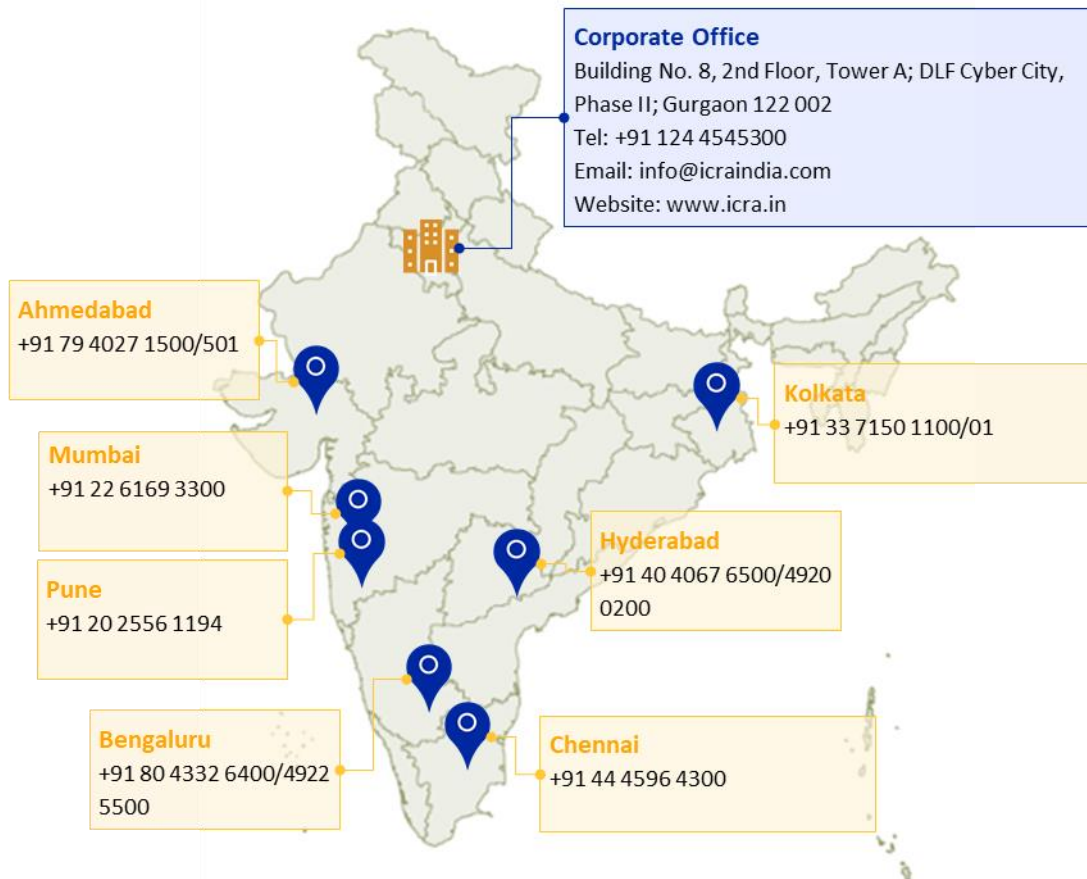
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