

August 29, 2023

Pacific Development Corporation Limited: Long-term rating upgraded; short-term rating 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 – Term loan	100.0	450.0	[ICRA]A+ (Stable); Rating upgraded from [ICRA]A (Positive); rated amount enhanced; outlook revised to Stable from Positive
Long-term – Fund-based working capital	40.0	41.0	[ICRA]A+ (Stable); Rating upgraded from [ICRA]A (Positive); rated amount enhanced; outlook revised to Stable from Positive
Short-term – Non-fund based working capital	103.5	102.5	[ICRA]A1; reaffirmed
Total	243.5	593.5	

*Instrument details are provided in Annexure I

Rationale

ICRA's rating action factors in the healthy growth in Pacific Development Corporation Limited's (PDCL) rental income from its retail portfolio in FY2023, which is expected to sustain going forward, while maintaining strong debt coverage metrics. The net operating income¹ (NOI) recorded a strong growth of ~78% year-on-year (YoY) in FY2023 to Rs. 244 crore (estimated), backed by steady occupancy levels and rental rates. ICRA expects its NOI to grow at 15-20% per annum over FY2024-FY2025, supported by commencement of rentals from the new malls at Jasola, Faridabad and Dehradun. Despite an increase in debt levels in FY2023, the debt coverage indicators continue to remain robust, as reflected by 5-year DSCR of around 5 times over FY2024-FY2028. The coverage indicators are expected to improve going forward, driven by rental escalations in the existing leases as well as new lease tie-ups at market rates. PDCL's gross debt (excluding lease liabilities) to NOI was less than 3 times as of March 2023 and the same is likely to be below 2 times over next two years. Gross debt² (including lease liabilities) to NOI stood at 7.7 times as of March 2023 and is estimated to be ~6 times as of March 2024.

The ratings continue to derive comfort from PDCL's position as one of the established players in the real estate sector in National Capital Region (NCR) and Dehradun city (Uttarakhand) with a strong brand recall. The ratings continue to draw strength from the favourable location of the company's key retail properties, resulting in continued high occupancy rates, with presence of a diversified and reputed tenant base across retail properties.

The ratings are, however, constrained by PDCL's exposure to geographical concentration risks, with over 80% of the leasable area being concentrated in Delhi-NCR. High dependence on a single location exposes the company to any adverse change in demand-supply situation and an event risk. Nevertheless, dependence on the NCR market is expected to reduce once the new malls in Jaipur and Dehradun become operational. However, the extent of scale up in these territories and their contribution to the consolidated income mix will remain a key monitorable. The ratings consider the execution and market risks for the

¹ Net operating income (NOI) is defined as lease rental income less property tax, insurance and any other direct expenses associated with the property. The above financial numbers and ratios reflect analytical adjustments made by ICRA w.r.t cashflows and may not be comparable with PDCL's reported financials.

² Gross debt includes lease liabilities towards leased assets as per IND AS 116

under-development mall at Jaipur. ICRA notes the large size of the under-construction project, which is likely to have leasable area of around 1.6 million square feet (msf) against its existing portfolio of around the same size. This project is estimated to have an outlay of around Rs. 1,300 crore over a period of five years, which is being funded through a mix of debt and internal accruals. The debt has been tied up and the land cost has been paid for. The pending construction cost for the under-construction malls is expected to be largely met through its internal accruals. Nevertheless, PDCL's long and established track record in successfully developing and leasing out the retail space mitigates the risk to an extent. ICRA expects that the company will maintain consolidated debt levels below Rs. 500 crore over the medium to long term. 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 favourable location of the assets in prime areas in the respective micro-markets. The ratings consider that most of the current operational malls are on a leased land from Delhi Metro Rail Corporation Limited (DMRC), which entail significant annual lease payments. Further, the debt coverage metrics are exposed to interest rate risk.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that the company will benefit from its established track record of operations, comfortable debt coverage metrics and strong financial flexibility.

Key rating drivers and their description

Credit strengths

Healthy growth in scale and robust coverage metrics³ – PDCL's rental income from the retail portfolio witnessed healthy growth in FY2023, which is expected to sustain going forward while maintaining strong debt coverage metrics. The NOI witnessed a strong growth of ~78% YoY in FY2023 to Rs. 244 crore (estimated), backed by healthy occupancy levels and rental rates. ICRA expects the NOI to grow by 15-20% per annum over FY2024-FY2025, supported by commencement of rentals from the new malls. While there was an increase in its debt levels in FY2023, the debt coverage indicators continue to remain robust as reflected by 5-year DSCR of around 5 times (over FY2024-FY2028). PDCL's gross debt (excluding lease liabilities) to NOI was less than 3 times as of March 2023 and the same is estimated to be below 2 times over next two years. The gross debt⁴ (including lease liabilities) to NOI stood at 7.7 times as of March 2023 and is likely to be ~6 times as of March 2024.

Long and established track record of promoters in real estate sector – PDCL is an established player in the real estate sector in NCR and Dehradun (Uttarakhand). The company has developed multiple projects in residential, commercial, retail and hospitality segments across multiple geographies, reflecting positively on its execution and marketing capabilities.

Favourable location of the assets – PDCL has six operational malls (five in NCR and one in Dehradun) and an ongoing residential project in Dehradun with unsold inventory. Most of its properties are well located and are well maintained, which enhances their marketability and have attracted reputed tenants from diverse categories. This has aided the company to command competitive rentals and maintain healthy footfalls across the malls.

Credit challenges

Large capex programme exposes PDCL to execution and market risks – PDCL has significant plans of expanding its ongoing portfolio with a new mall at Jaipur, with a leasable area of around 1.6 msf against its existing portfolio of around the same size, thereby exposing it to execution and market risks. While the ongoing capex is expected to be largely funded through internal accruals, delay in ramp up of the upcoming malls leading to pressure on revenues and earnings or higher-than-expected increase in debt levels remains a key rating sensitivity. Nevertheless, PDCL's long and established track record in successfully developing and leasing out retail space mitigates the risk to an extent.

³ The above financial numbers and ratios reflect analytical adjustments made by ICRA w.r.t cashflows and may not be comparable with PDCL's reported financials.

⁴ Gross debt includes lease liabilities towards leased assets as per IND AS 116

Geographical concentration risk – PDCL is exposed to geographical concentration risk with over 80% of the leasable area being concentrated in NCR. High dependence on a single location exposes the company to any adverse change in demand-supply situation and event risk. While it plans to launch multiple projects in various cities outside NCR, the extent of scale up in these territories and their contribution to the consolidated income mix will remain a key monitorable.

Vulnerability of commercial real estate sector to cyclical risk – PDCL’s portfolio is exposed to risks arising from the cyclical nature of the sector and vulnerability to exogenous shocks such as the Covid-19 pandemic, which could impact its cash flows. Further, the debt coverage metrics are exposed to the interest rate risk. Moreover, most of the current operational malls are on a leased land from DMRC, which entail significant annual lease payments.

Liquidity position: Adequate

The liquidity position remains adequate, given the healthy cash flows from operational assets, which are expected to adequately cover its debt obligations and capex requirements. PDCL has multiple upcoming malls with a leasable area of around 3 msf, with an estimated pending construction outlay of approximately Rs. 850 crore, which will largely be funded through its internal accruals. Further, it has undrawn bank limits of around Rs. 60 crore as on August 10, 2023, which would enable the company to fund any temporary cash flow mismatches.

Rating sensitivities

Positive factors – PDCL’s ratings could be upgraded if it is able to successfully ramp up its scale of operations, supported by healthy leasing as well as commencement of rental income at adequate rates from its upcoming mall at Jaipur, resulting in improvement in leverage metrics while maintaining healthy coverage metrics and liquidity position on a sustained basis.

Negative factors – The pressure on the ratings can arise in case of a delay in the ramp up of the upcoming malls leading to pressure on revenues and earnings, or higher-than-expected increase in debt levels resulting in weakening of liquidity, leverage and coverage metrics on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Rating Methodology for Real Estate Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of PDCL. This includes its subsidiaries and associates, as listed under Annexure II.

About the company

Incorporated in 1996, Pacific Development Corporation Ltd (PDCL) is involved in real estate development. The company was promoted by Mr. S. K. Bansal and is currently being managed by him and his two sons—Mr. Abhishek Bansal and Mr. Saket Bansal. The current operational retail portfolio comprises retail malls at Tagore Garden, Dwarka, Netaji Subhash Place, and Jasola, in Delhi, and one retail mall in Dehradun under the name Pacific Mall, encompassing a total leasable area of around 1.6 msf with an occupancy of 99% as of June 2023. It also has around 3 msf of under-development projects in Faridabad, Dehradun and Jaipur as on the same date. In addition, PDCL operates a hotel-cum-business park in Ghaziabad and has an ongoing residential project Pacific Premier, in Dehradun, with a saleable area of around 2.3 lakh square feet (lsf).

Key financial indicators (audited)

PDCL Consolidated	FY2022	FY2023*
Operating income (Rs. crore)	718.6	688.3
PAT (Rs. crore)	95.7	254.8
OPBDIT/OI	45.6%	40.4%
PAT/OI	13.3%	37.0%
Total outside liabilities/Tangible net worth (times)	9.1	5.3
Total debt/OPBDIT (times)	5.8	8.1
Interest coverage (times)	2.2	31.6

Source: ICRA Research, Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, OI: Operating Income; *FY2023 numbers are on a standalone provisional basis; the above financial numbers and ratios reflect analytical adjustments made by ICRA and may not be comparable with PDCL's reported financials; Gross debt includes lease liabilities as per IND AS 116

Status of non-cooperation with previous CRA:

India Ratings and Research Private Limited withdrew the IND BBB+ (Stable outlook)/ IND A2 ratings on PDCL's bank lines in December 2016 due to lack of adequate information. Credit Analysis and Research Limited suspended ratings on bank facilities of PDCL in March 2015 as the company did not submit required information for the credit rating.

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Aug 29, 2023	Aug 30, 2022	May 21, 2021	Apr 13, 2020
1 Fund-based – Term loan	Long-term	450.0	421.8	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Fund-based working capital	Long-term	41.0	-	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	-
3 Non-fund based working capital	Short-term	102.5	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4 Unallocated	Long-term/ Short-term	-	-	-	-	[ICRA]A (Stable)/ [ICRA]A1	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term Fund-based – Fund-based working capital	Simple
Short-term - Non-fund based working capital	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan	January 2023	-	FY2032	450.0	[ICRA]A+ (Stable)
-	Overdraft	July 2022	-	-	41.0	[ICRA]A+ (Stable)
-	Bank guarantee	April 2021	-	-	102.5	[ICRA]A1

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	PDCL Ownership	Consolidation Approach
Pacific Development Corporation Limited	Parent Company	Full Consolidation
Pacific Retail Centres India Private Limited	100.0%	Full Consolidation
Nirbhay Realtors Private Limited	100.0%	Full Consolidation
Hardwin Buildcon Private Limited	100.0%	Full Consolidation
Damyanti Agro Foods Private Limited	100.0%	Full Consolidation
Doon Containers Private Limited	100.0%	Full Consolidation
Nainital Technobuild Private Limited	100.0%	Full Consolidation
Pickup Tradelink Private Limited	53.5%	Full Consolidation
Pacific Development Retail Private Limited	100.0%	Full Consolidation
Ricker Estates Private Limited	100.0%	Full Consolidation

Source: Company

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