

June 11, 2024

## Pacific Development Corporation Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	450.0	450.0	[ICRA]A+ (Stable); reaffirmed
Long-term – Fund-based working capital	41.0	41.0	[ICRA]A+ (Stable); reaffirmed
Short-term – Non-fund based working capital	102.5	102.5	[ICRA]A1; reaffirmed
<b>Total</b>	<b>593.5</b>	<b>593.5</b>	

\*Instrument details are provided in Annexure I

### Rationale

The ratings reaffirmation factors in the expected increase in Pacific Development Corporation Limited's (PDCL) rental income and Net Operating Income (NOI)<sup>1</sup>, backed by commencement of rentals from new malls at Faridabad and Dehradun in FY2025, while maintaining strong debt coverage metrics. PDCL's leasable area increased to 2.7 million square feet (msf) as of June 2024 from 1.6 msf as of June 2023 with the commencement of NIT Faridabad mall in October 2023 and Dehradun mall in June 2024. The retail portfolio occupancy was healthy at 99% as of February 2024. The rental income from its retail portfolio is estimated to grow by 22-26% to Rs. 420-430 crore in FY2024 and further by 12-15% in FY2025. The NOI is estimated to increase by 16-18% in FY2024 and 10-12% in FY2025. The ratings continue to draw strength from the favourable location of the company's key retail properties, leading to continued high occupancy rates, with a diversified and reputed tenant base across retail properties. PDCL's debt coverage indicators remain strong, reflected in the 5-year average DSCR of around 5 times during FY2025-FY2029. PDCL's gross debt<sup>2</sup> to NOI is estimated at 6.5-6.8 times as of March 2024 (net of lease liabilities, stood at 2 times as of March 2024) and is expected to be 5.2-5.5 times as of March 2025. The ratings continue to derive comfort from PDCL's position as one of the established players in the real estate sector in the National Capital Region (NCR)<sup>3</sup> and Dehradun (Uttarakhand) with a strong brand recall.

The ratings are, however, constrained by PDCL's exposure to geographical concentration risks, with over 80% of the leasable area in the 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 mall in Jaipur (expected by FY2028) becomes operational. However, the extent of scale up in the new geography and their contribution to the consolidated income will remain a key monitorable. The rating considers the execution and market risks for the under-construction mall at Jaipur. ICRA notes the large size of the under-construction project, which is likely to have leasable area of 1.6 msf against its existing portfolio of 2.7 msf. Nevertheless, PDCL's long and established track record in successfully developing and leasing out the retail space mitigates the risk to an extent. The Jaipur mall is estimated to have an outlay of around Rs. 1,300 crore over five years, which is being funded through Rs. 450 crore of debt and the remaining through internal accruals. Around 50% of the cost has already been incurred till February 2024. The pending construction cost of the other under-construction malls (including Jaipur and Faridabad malls) is expected to be largely met through its internal accruals. The ratings factor in the vulnerability of the portfolio to lease expiry and market risks. The lease expiry 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 the Delhi Metro Rail Corporation Limited (DMRC), which entail significant annual lease payments. Further, the debt coverage metrics are exposed to interest rate risk.

<sup>1</sup> Defined as lease rental income less property tax, insurance and any other direct expenses associated with the property

<sup>2</sup> Gross debt includes lease liabilities towards leased assets as per IND AS 116

<sup>3</sup> NCR includes Delhi, Gurugram, Noida, Greater Noida, Ghaziabad and Faridabad

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will sustain the healthy occupancy levels, continue to improve the rental income while maintaining strong debt coverage metrics.

## Key rating drivers and their description

### Credit strengths

**Healthy growth in scale and strong debt coverage metrics<sup>4</sup>** – PDCL's leasable area increased to 2.7 million square feet (msf) as of June 2024 from 1.6 msf as of June 2023 with the commencement of the NIT Faridabad mall in October 2023 and the Dehradun mall in June 2024. The retail portfolio occupancy was healthy at 99% as of February 2024. The rental income from its retail portfolio is estimated to grow by 22-26% to Rs. 420-430 crore in FY2024 and further by 12-15% in FY2025. The NOI is estimated to increase by 16-18% in FY2024 and 10-12% in FY2025. The ratings continue to draw strength from the favourable location of the company's key retail properties, leading to continued high occupancy rates, with a diversified and reputed tenant base. PDCL's debt coverage indicators remain strong, reflected in 5-year average DSCR of around 5 times during FY2025-FY2029. PDCL's gross debt to NOI is estimated at 6.5-6.8 times as of March 2024 (net of lease liabilities stood at 2 times as of March 2024) and is expected to be 5.2-5.5 times as of March 2025.

**Favourable location of assets** – PDCL has seven operational malls (six in NCR and one in Dehradun) and a residential project in Dehradun. 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 its malls.

**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 the residential, commercial, retail and hospitality segments across diverse geographies, reflecting positively on its execution and marketing capabilities.

### Credit challenges

**Large capex programme exposes PDCL to execution and market risks** – PDCL has significant plans of expanding its current portfolio with a new mall at Jaipur, with a leasable area of 1.6 msf against its existing portfolio of around the same size, thereby exposing it to execution and market risks. ICRA notes the large size of the under-construction project, which is likely to have leasable area of 1.6 msf against its existing portfolio of 2.7 msf. The Jaipur mall is estimated to have an outlay of around Rs. 1,300 crore over five years, which is being funded through Rs. 450 crore of debt and the remaining through internal accruals. Around 50% of the cost has already been incurred till February 2024. The pending construction cost of the other under-construction malls (including Jaipur and Faridabad 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, also reflected in PDCL's under-construction portfolio reduced to 1.8 msf (Jaipur and Faridabad malls) from 2.4 msf as of June 2023, with the NIT Faridabad mall started in October 2023 and the Dehradun mall in June 2024. Further, the company is exposed to market risks with the residential project in Dehradun having unsold inventory (65 units), which is planned to be launched in FY2025 and the cost incurred is around 96%. Nonetheless, the developer has an established track record in the Dehradun market, wherein it has already completed other residential projects in the past.

**Geographical concentration risk** – PDCL is exposed to geographical concentration risks, with over 80% of the leasable area in Delhi-NCR. High dependence on a single location (NCR) 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 mall in Jaipur (expected by FY2028) becomes operational. However, the extent of scale up in the new geography and their contribution to the consolidated income will remain a key monitorable.

<sup>4</sup> The above financial numbers and ratios reflect analytical adjustments made by ICRA w.r.t cash flows and may not be comparable with PDCL's reported financials.

**Vulnerability of commercial real estate sector to cyclicity** – PDCL’s portfolio is exposed to the cyclicity in the sector and vulnerability to exogenous shocks, which could impact its cash flows. Further, the debt coverage metrics are exposed to material changes in occupancy or interest rate risk. Moreover, most of the current operational malls are on leased land from the DMRC, which entail significant annual lease payments.

### Liquidity position: Adequate

The liquidity position remains adequate, with healthy cash flows from operational assets expected to cover its debt obligations (~Rs. 16 crore in FY2025 and capex requirements’ pending cost of ~Rs. 700 crore for under-construction malls till FY2028). Further, it has an average cushion of Rs. 10-15 crore in the working capital bank limits during past twelve months ending March 2024. PDCL, on standalone basis, had free cash and bank balance of ~Rs. 30 crore as on March 31, 2024.

### 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 and liquidity position while maintaining healthy coverage metrics, on a sustained basis.

**Negative factors** – Pressure on the ratings can arise in case of a delay in the ramp-up of the upcoming malls which results in pressure on revenues and earnings, or higher-than-expected increase in debt levels weakens the liquidity, leverage and coverage metrics on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Realty - Lease Rental Discounting (LRD)</a> <a href="#">Realty - Commercial/Residential/Retail</a>
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

Pacific Development Corporation Ltd (PDCL), incorporated in 1996, is involved in real estate development. The company is 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, Faridabad and Jasola, in Delhi-NCR, and one in Dehradun called Pacific Mall, encompassing a total leasable area of 2.1 msf with an occupancy of 99% as of February 2024. 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 2.3 lakh square feet (lsf).

### Key financial indicators (audited)

PDCL Consolidated	FY2022	FY2023
Operating income (Rs. crore)	718.6	695.9
PAT (Rs. crore)	95.7	94.0
OPBDIT/OI	45.6%	47.7%
PAT/OI	13.3%	13.5%
Total outside liabilities/Tangible net worth (times)	9.1	8.3
Total debt/OPBDIT (times)	5.8	7.7
Interest coverage (times)	2.2	2.2

Source: ICRA Research, company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, OI: Operating Income; 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 (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				June 11, 2024	Aug 29, 2023	Aug 30, 2022	May 21, 2021
1 Fund-based – Term loan	Long-term	450.0	406.3	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Fund-based working capital	Long-term	41.0	-	[ICRA]A+ (Stable)	[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
-	<b>Term loan</b>	January 2023	-	FY2032	450.0	[ICRA]A+ (Stable)
-	<b>Overdraft</b>	July 2022	-	-	41.0	[ICRA]A+ (Stable)
-	<b>Bank guarantee</b>	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
<b>Pacific Development Corporation Limited</b>	Parent Company	Full Consolidation
<b>Pacific Retail Centres (India) Private Limited</b>	100.0%	Full Consolidation
<b>Nirbhay Realtors Private Limited</b>	100.0%	Full Consolidation
<b>Hardwin Buildcon Private Limited</b>	100.0%	Full Consolidation
<b>Damyanti Agro Foods Private Limited</b>	100.0%	Full Consolidation
<b>Doon Containers Private Limited</b>	100.0%	Full Consolidation
<b>Nainital Technobuild Private Limited</b>	100.0%	Full Consolidation
<b>Pickup Tradelink Private Limited</b>	53.4%	Full Consolidation
<b>Pacific Development Retail Private Limited</b>	100.0%	Full Consolidation
<b>Ricker Estates Private Limited</b>	100.0%	Full Consolidation

Source: Company data; ICRA Research

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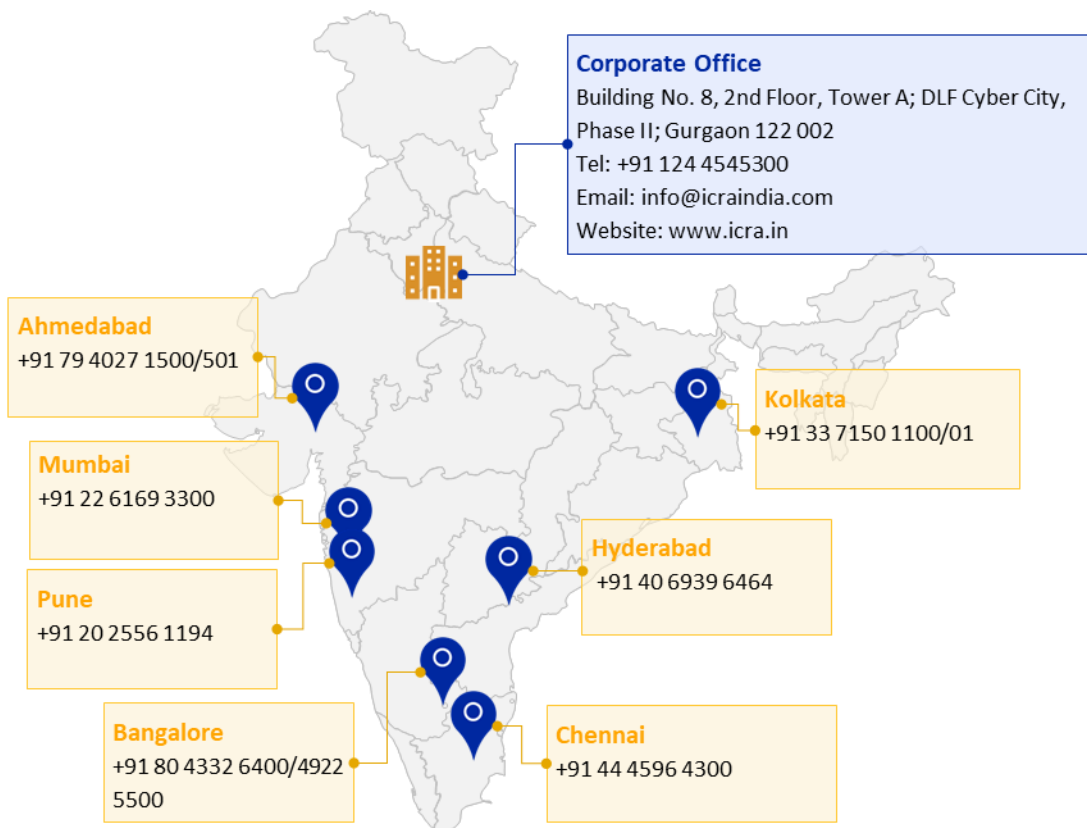
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