October 23, 2017

YG Realty Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund based – Term Loans	443.0 (revised from 500.00)	[ICRA]A(SO) (Stable); Rating upgraded from [ICRA]A-(SO) (Stable)
Unallocated	57.0 (earlier nil)	[ICRA]A(SO) (Stable); Rating upgraded from [ICRA]A-(SO) (Stable)
Total	**500.0**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating from [ICRA]A-(SO) (pronounced ICRA A minus Structured Obligation)[1] to [ICRA]A(SO) (pronounced ICRA A Structured Obligation) for Rs. 500.0-crore[2] bank facilities of YG Realty Private Limited (YRPL). The letter SO in parenthesis suffixed to a rating symbol stands for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. SO ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned. The outlook on the long-term rating is Stable.

Rationale

The rating upgrade reflects the improved cash flow cover over the tenure of the rated loan facilities with a significant reduction in interest rates. Consequent to the reduction in rates and higher occupancy than expected, the cash cover for the rated loan facility has improved. Further, the rating continues to draw strength from the location of the property — One Horizon Center — at Gurgaon, Haryana and its marquee tenant profile. The rating also draws comfort from the track record, and strong financial and operational support of YRPL's promoters - the DLF Group and the Hines Group. In addition, the rating takes into account the hypothecation of lease rentals in an escrow account, the presence of a defined waterfall mechanism and the stability of future net cash flows.

The rating, however, remains constrained on account of the exposure to risks associated with lease renewal over the medium term, interest rate volatility and high tenant-concentration risks. The top-10 tenants accounted for ~75% of the leased area at the end of June 2017. Further, the absence of a debt service reserve account (DSRA) may expose the company to cash flow mismatches in case of any delay in remittance of rentals. Nevertheless, undertaking from the management to maintain a liquidity buffer of at least Rs. 7.5 crore (reduced from the earlier Rs. 10 crore) through the tenure of the loan underpins the rating and mitigates the risk to an extent.

Going forward, YRPL's ability to maintain high occupancy levels, timely remittance of rentals by tenants and the company's leverage as well as debt-coverage indicators will remain among the key rating sensitivities.

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[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *100 lakh = 1 crore = 10 million*

Key rating drivers

Credit strengths

- **Improved debt-coverage indicators due to reduction in interest rates** –The cash cover over the tenure of the rated facility has improved because of reduction in both rates, interest rate charged on the loans. From April 1, 2017, the effective rate has come down to 9.25% for the loans.
- **Established track record of operational and financial support by promoters –**YRPL's promoters infused Rs. 542 crore through 15% compulsory convertible debentures (CCDs) and equity for the development of the project. Further, the promoters infused an additional Rs. 79 crore via non-convertible debentures (NCD) to cover for cost over-runs witnessed in the project. YRPL also benefits by leveraging its promoters' extensive experience and association with companies, both global and domestic, in order to achieve healthy occupancy levels.
- **Low vacancy levels with marquee tenants** – One Horizon Centre has 0.8 million sq ft of leasable area. As on June 2017-end, vacancy was low at 3.5%. In addition, the tenant profile constitutes some marquee names such as Oracle, Coca Cola, and American Express etc, among others, which have a presence across various sectors, and thus mitigate sectoral-concentration risks.

Credit weaknesses

- **Lease renewal risks over the medium term** – The company remains exposed to lease-renewal risk. Out of the area leased in June 2017, around 10% will be up for renewal in CY2019. Given that the company is yet to demonstrate its ability to renew the leases, it remains exposed to renewal risk.
- **High tenant concentration –** At present, the top five tenants account for around 57% of the leasable area at One Horizon Center. In the backdrop of this high concentration, the cash flows of the company may be impacted in case any of these tenants, occupying large space, decides to exit and there is a lag in arranging a new tenant to occupy the vacant space.
- **Absence of DSRA** – There is no DSRA requirement as per the loan agreement. The absence of DSRA exposes the company to cash flow mismatch in case of any delays in remittance of rentals. Nonetheless, undertaking from the management to maintain a liquidity buffer of at least Rs. 7.5 crore (reduced from the earlier Rs. 10 crore) through the tenure of the loan provides comfort.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria
Corporate Credit Rating Methodology
Rating Methodology for Debt Backed by Lease Rentals

About the company

YRPL is a joint venture between Hines India Fund and DLF Limited. Hines India Fund holds 50% in the JV through its step down subsidiary CCC Projects Limited. HIF Real Estate Project India Limited, a wholly owned subsidiary of Hines India Fund holds 100% in CCC Projects. DLF Limited, through its 100% subsidiary, DLF Home Developers Limited, holds the other 50%. YRPL has developed and now operates and maintains a city centre office tower project, One Horizon Centre. The project has a leasable area of 0.8 million sq ft. The company had leased around 96.5% of the leasable area as of June 2017.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	89.54	117.83
PAT (Rs. crore)	-74.36	-29.72
OPBDIT/ OI (%)	75.58%	80.45%
RoCE (%)		7.61%
Total Debt/ TNW (times)	0.98	0.92
Total Debt/ OPBDIT (times)	7.23	4.84
Interest coverage (times)	0.56	0.91
NWC/ OI (%)	-42%	-41%%

OI: Operating Income; 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);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years
Table

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017
				October 2017	Oct 2016
1	Fund Based	Long Term	443.0	[ICRA]A(SO) (Stable)	[ICRA]A-(SO) (Stable)
2	Unallocated	Long Term	57.0	[ICRA]A(SO) (Stable)	

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 www.icra.in

Annexure-1

Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loans	-	-			
TL-I	November 2015		2024	231.0	[ICRA]A(SO) (Stable)
TL-II	November 2015		2025	35.0	[ICRA]A(SO) (Stable)
TL-III	November 2015		2024	154.0	[ICRA]A(SO) (Stable)
TL-IV	November 2015		2025	23.0	[ICRA]A(SO) (Stable)
Unallocated				57.0	[ICRA]A(SO) (Stable)

Source: YRPL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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