YG Realty Private Limited

October 22, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	443.00	400.00	[ICRA]A (SO) (Stable); reaffirmed
Long-term – Unallocated	57.00	100.00	[ICRA]A (SO) (Stable); reaffirmed
Total	**500.00**	**500.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]A (SO) (pronounced ICRA A structured obligation) for the Rs. 400-crore (reduced from the earlier Rs. 443 crore) long-term fund-based limit and Rs. 100-crore (enhanced from the earlier Rs. 57 crore) unallocated limits of YG Realty Private Limited (YRPL). The outlook on the long-term rating is Stable.

The presence of rental escrow account and stipulated terms for prioritisation of loan repayment over any other payment has resulted in a structured payment mechanism of the SO rated facilities.

Rationale

The rating reaffirmation continues to reflect the healthy cash flow cover over the tenure of the rated loan facilities driven by consistently high occupancy levels in the property. In addition, the rating also draws comfort from incremental leasing rates which have continued to remain healthy. 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. Further, the rating also takes note of 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 because of high asset concentration risk given that all the revenues are derived from a single commercial project currently. The rating also factors in the exposure to risks arising from interest rate volatility and high tenant concentration risks. The top 10 tenants account for ~81% of the leased area at the end of June 2018. Further, absence of 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 through the tenure of the loan underpins the rating and mitigates the said risk to an extent.

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

Outlook: Stable

ICRA believes YRPL will be able to maintain its financial profile, aided by its high occupancy and stable average lease rentals in its sole commercial project, One HorizonCenter. The outlook may be revised to 'Positive' if the company is able to diversify its portfolio of properties or increase its lease rentals leading to further improvement in the financial profile.

The outlook may be revised to 'Negative' if the occupancy declines or there is significant increase in the debt levels leading to deterioration of the capital structure and weakening its cash cover to level lower than the rating category.

Key rating drivers

Credit strengths

Healthy debt coverage indicators –The cash cover over the tenure of the rated facility continues to remain healthy driven by high occupancy level and strong lease rentals. This has resulted in stable revenue stream which coupled with healthy operating margins underpin the cash cover.

Healthy occupancy levels with marquee tenants – One Horizon Center has 0.8 million sq ft of leasable area. As on June 2018 end, occupancy was high at 98%. In addition, the tenant profile constitutes some marquee names such as Oracle, Coca Cola, and American Express, among others, who have a presence across various sectors, thus mitigating any sectoral concentration risks.

Established track record of operational and financial support by promoters – YRPL draws benefit by leveraging its promoters' extensive experience and association with companies, both global and domestic, in order to achieve healthy occupancy levels.

Credit challenges

Asset Concentration Risk –Dependence of revenues on single asset i.e. One Horizon Center exposes the company to high asset-concentration as well as geographical concentration risk.

High tenant concentration - Currently, the top-ten tenants account for around 81% 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 Debt Service Reserve Account (DSRA) – There is no DSRA created in absence of the requirement as per the loan agreement. Absence of DSRA exposes the company to cash flow mismatch in case of any delays in remittance of rentals; though undertaking from the management to maintain a liquidity buffer of at least Rs. 7.5 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 Center. The project has a leasable area of 0.8 million sq ft. The company had leased around 97.6% of the leasable area as of June 2018.

In FY2018, the company reported a net loss of Rs. 6.74 crore on an OI of Rs. 134.31 crore compared with a net loss of Rs. 29.72 crore on an OI of Rs. 117.83 crore in the previous year.

Key financial indicators

	FY2017	FY2018
Operating Income (Rs. crore)	117.83	134.31
PAT (Rs. crore)	-29.72	-6.74
OPBDIT/OI (%)	80.45%	83.73%
RoCE (%)	7.61%	10.22%
Total Debt/TNW (times)	7.84	7.70
Total Debt/OPBDIT (times)	8.98	6.96
Interest Coverage (times)	0.91	1.11
NWC/OI (%)	-41%	-47%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Oct 2018	Date & Rating in FY2018 Oct 2017	Date & Rating in FY2017 Oct 2016	Date & Rating in FY2016 -
1	Fund Based	Long Term	400.0	400.0	[ICRA]A (SO) (Stable)	[ICRA]A (SO) (Stable)	[ICRA]A- (SO) (Stable)	-
2	Unallocated	Long Term	100.0	-	[ICRA]A (SO) (Stable)	[ICRA]A (SO) (Stable)	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	November 2015	-	2024	207	[ICRA]A (SO) (Stable)
NA	Term Loan 2	November 2015	-	2025	33	[ICRA]A (SO) (Stable)
NA	Term Loan 3	November 2015	-	2024	138	[ICRA]A (SO) (Stable)
NA	Term Loan 4	November 2015	-	2025	22	[ICRA]A (SO) (Stable)
NA	Unallocated Limits		-	-	100.0	[ICRA]A (SO) (Stable)

Source: YRPL

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About ICRA Limited:

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