June 26, 2020

DLF Info City Developers (Chandigarh) Limited: [ICRA]AA-(Stable); reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund based	226.0	213.0	[ICRA]AA- (Stable); reaffirmed
Total	**226.0**	**213.0**	

**Instrument details are provided in Annexure-1*

Rationale

Given the presence of strong operational, financial and managerial linkages, ICRA has taken a consolidated rating view for DLF Cyber City Developers Limited and its subsidiaries, all engaged in the business of commercial real estate ((hereinafter referred to as DCCDL or DCCDL Group). Further, while 66.67% of DCCDL is held by DLF Limited (DLF, rated [ICRA]A+(Stable)/A1), ICRA has not taken a consolidated rating view on DLF and DCCDL groups. This is on account of the presence of a strong shareholder in DCCDL (GIC group with 33.33% stake), who has affirmative rights for all significant decisions. While ICRA does not expect any incremental financial support to be extended by DCCDL to DLF, as has been the case since the stake sale to GIC in December 2017,ICRA has taken note of the continuing financial transactions amongst the two groups involving settlement of advances (from DLF to DCCDL), regular payment of dividend (from DCCDL to DLF), and on-going commercial transactions for project development, which all are being done on arm's length basis, as per the understanding provided by the management.

The rating action reflects the continuing growth in the consolidated scale of DCCDL's operations, with the total operational leasable area of the group increasing to 30.3 mn. sq. ft. in March 2020, post transfer of assets aggregating to 2.5 mn. sq. ft. from DLF group to DCCDL group in H1FY2020, as a part of the settlement of outstanding inter-group advances. DLF's stake in a joint-venture company, operating a commercial asset with leasable area of 0.8 mn. sq. ft. in Gurgaon, was also transferred to DCCDL. DCCDL had outstanding interest-bearing advances amounting to Rs. 9098 crore to DLF as on March 31, 2018, and the same have been fully settled as on 30th September, 2019 through both cash and transfer of rent-generating assets, having a rental potential of around Rs. 325-350 crore[1]. ICRA however, notes that DCCDL declared a one-time dividend of around Rs. 2300 crore, thus paying out a part of the amount received towards the settlement of these advances. Going forward, a further increase is expected in DCCDL's leasable area, with the Group's office property, DLF Cyber Park (Gurgaon), having a leasable area of 2.5 mn. sq. ft., expected to commence operations from October 2020 onwards, although ICRA notes that the same has been delayed from the earlier estimate of October, 2019, largely due to unforeseen delays in receipt of regulatory approvals, NGT guidelines on construction activities, as well as the Covid-19 pandemic. Notably, the project has witnessed healthy pre-leasing, with ~95% of the leasable area having been committed as on March 31, 2020, and no cancellations or rental revisions have been recorded thus far. DCCDL also has Chennai SEZ as a part of under construction portfolio having a leasable area of 0.81 mn. sq. ft. which is expected to start operations partially in FY2021. This property has also seen healthy pre-leasing of 83%. Overall, DCCDL's office leasing portfolio has remained largely unaffected by the Covid-19 outbreak until now, given the strong tenant profile of the assets. However, the Group's retail portfolio, which stood at 3.9 mn. sq. ft. (13% of the total

[1] Not including DCCDL's share of rental income from the transferred joint venture company, amounting to around Rs. 70-75 crore per annum

operational leasable area) as on March, 2020, has been significantly impacted, with malls having been closed during the lock-down period, and footfalls remaining low even post the recent resumption of operations. DCCDL has provided an option to its lessees to avail full waiver of rentals in the retail segment for the period of lockdown till June 15, 2020 basis certain preconditions, and if the lessees agree to the said preconditions they would be eligible for partial waiver of the minimum guarantee rental for the rest of the year. This will result in a considerable reduction in the retail rentals expected to be generated during FY2021. Nonetheless, ICRA continues to draw comfort from the high liquidity available with the Group, which includes free cash & liquid balances of around Rs. 1,300 crore as on March 31, 2020, as well as the strength of the Group's office leasing segment, which has been its key revenue contributor, generating 85% of its total revenues on average over the past 2 years. The office leasing portfolio comprises diverse, high quality assets having favourable locations, which have attracting a reputed tenant profile and recorded consistently high occupancy levels. Stable rental generation from this segment is expected to support the overall financial profile, keeping cash covers adequate. Nonetheless, DCCDL's ability to maintain high occupancy levels in its operational and upcoming commercial properties going forward will remain a key credit monitorable, given that the lock-in period has expired for most of the existing leases. Risks in this regard may be further exacerbated in case of structural changes brought about by the Covid-19 pandemic altering the way in which corporates function over the medium-to-long term, resulting in possible rationalization of office space leasing. ICRA also notes that DCCDL remains exposed to geographical concentration risks, with ~57% of the commercial leasable area being concentrated in Gurgaon.

Moreover, the ratings factor in the sensitivity of the cash cover to interest rate risks, as well as the absence of a debt servicing reserve account (DSRA) for most of the loans, which increases the reliance on timely realisations of rentals. 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. The current organic development potential of DCCDL stands at ~25.5 mn. sq.ft, over and above the on-going development of ~ 7.1 mn sq.ft. While any significant increase in debt-funded capex going forward will remain a key rating monitorable, ICRA takes note of the management's stated intent to maintain overall debt at the current level thus resulting in moderation of leverage indicators (in terms of NOI/debt times) with the addition and stabilization of retail and new rent generating assets, as well as regular escalation in rentals in operational projects, over the next few years.

Further, the ratings continue to positively factor in the parentage of DCCDL with its promoter - DLF Limited and co-shareholder GIC Singapore, having an established track record of successfully developing assets and subsequently leasing the same.

Going forward, DCCDL's ability to maintain occupancy levels in its completed portfolio, stabilize retail rentals, renew leases at adequate rates, and manage execution and market risks associated with the development portfolio, would be the key rating sensitivities. Movement in overall leverage and coverage levels will also be a key rating monitorable.

Key rating drivers and their description

Credit strengths

Strong operational profile marked by high occupancy and strong rentals - DCCDL at present has ~30.3 mn sq ft of operational area. A large part of the leasable portfolio, (~26.4 mn sq.ft area) is available for office leasing while the balance is earmarked for the retail space. The properties are of high quality, and are favourably located, and have therefore attracted marquee tenants, with the consolidated portfolio enjoying healthy occupancy of 95% as on March 31, 2020.

Complete settlement of interest-bearing advances – The settlement of interest-bearing advances that were extended by DCCDL to DLF Limited has been completed in H1FY2020 through both cash and transfer of rent-generating assets leading to increased asset base. ICRA however, notes that out of the total dividend of Rs. 2900 crore, declared by DCCDL in FY2020,a one-time dividend of around Rs. 2300 crore was for paying out a part of the amount received towards the settlement of these advances. The assets transferred include two operational retail malls having a total rental potential of around Rs. 325-350 crore, although ICRA notes that the full rental potential might not be seen in FY2021 due to impact of COVID. DLF's stake in a joint-venture company, operating a commercial asset with leasable area of 0.8 mn. sq. ft. in Gurgaon, was also transferred to DCCDL. DCCDL's share of rental income from the same would amount to around Rs. 70-75 crore per annum. Further, a few other land parcels with significant development potential were also transferred as a part of settlement.

Further growth in consolidated scale of operations going forward expected to support overall financial profile and debt coverage – 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. DCCDL's upcoming property, DLF Cyber Park, Gurgaon, having a leasable area of 2.5 mn. sq. ft., is expected to commence operations from October 2020 onwards. Notably, the project has witnessed healthy pre-leasing, with ~95% of the leasable area having been committed as on March 31, 2020. DCCDL also has Chennai SEZ as a part of under construction portfolio having a leasable area of 0.81 mn. sq. ft. which is expected to start operations partially in FY2021. This property has also seen healthy pre-leasing of 83%. With this increase in leasable area, overall lease rentals are expected to increase significantly over the near to medium term.

Strong promoters with established track record – DCCDL is a JV of DLF Limited and GIC, Singapore. DLF holds 66.67% and GIC holds 33.33% in the company. Both DLF and GIC have established track record of successfully developing and leasing properties. As such, 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.

Credit challenges

Disruption in business operations on account of Covid-19 – The rental deferment and waiver in the rental on account of COVID-19, specially in the retail segment, is expected to adversely impact revenues and cash accruals over the near to medium term. DCCDL has provided an option to its lessees to avail full waiver of rentals in the retail segment for the period of lockdown till June 15, 2020 basis certain preconditions, and if the lessees agree to the said preconditions, they would be eligible for partial waiver of the minimum guarantee rental for the rest of the year.. However, comfort is drawn from the adequate liquidity available with the company and stable rentals from the office leasing portfolio, which are expected to keep cash covers adequate.

Going forward though, DCCDL's ability to maintain high occupancy levels in its operational and upcoming commercial properties will remain a key credit monitorable, given the possibility of structural changes being brought about by the Covid-19 pandemic in the commercial leasing segment. Risks in this regard are further exacerbated by the lock-in period having expired for most of DCCDL's existing leases. Moreover, the ratings factor in the sensitivity of the cash cover to interest rate risks, as well as the absence of a debt servicing reserve account (DSRA) for most of the loans, which increases the reliance on timely realisations of rentals.

Exposure to geographical concentration risks - DCCDL's leasing portfolio of ~30.3 mn sq ft. is largely spread across six cities. However, around 57% of the leasable area is concentrated in Gurgaon, which exposes the company to risks associated with geographical concentration.

Risks associated with development capex - The current organic development potential with DCCDL is ~25.5 mn sq ft, apart from the ongoing development of 7.1 mn sq. The extent of debt funding of the capex incurred towards this development will remain a key rating monitorable. However, ICRA takes note of the management's stated intent to maintain overall debt at the current level thus resulting in moderation of leverage indicators (in terms of NOI/debt times) with the addition and stabilization of retail and new rent generating assets, as well as regular escalation in rentals in operational projects, over the next few years.

Liquidity position: Strong

While the Covid-19 pandemic is expected to is expected to adversely impact revenues and cash accruals over the near to medium term, especially in the retail segment, 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. Also, the company, as a practice, maintains at least three months of upcoming debt repayment as cash balance, which provides further comfort. Free cash and liquid balances stood at Rs. 1300 crore as on March 31, 2020. Commencement of operations of Cyber Park from October 2020 onwards, would further improve the company's cash flows going forward.

Rating sensitivities

Positive triggers – ICRA could upgrade DCCDL's rating if the company is able to achieve significant ramp-up in its operating revenues on the back of leasing at higher rates and/or faster-than-expected construction and leasing in the development portfolio, or if it is able to reduce its leverage ratios significantly over the near to medium term. Specific credit metrics that could lead to an upgrade of DCCDL's rating include the average DSCR over the next five years increasing to 1.50 times and net debt to rental reducing to 4.75 times on a sustained basis.

Negative triggers – Negative pressure on DCCDL's rating could arise in case of any renegotiation in the commercial/retail rentals or higher than expected impact on rentals and occupancies on account of COVID-19. Rating could also be impacted if debt build-up is higher than expected, leading to lower-than-expected cash cover. Specific credit metrics that could lead to a downgrade of DCCDL's rating include the average DSCR over the next five years declining to below 1.3 times or net debt to rental increasing above 6.5 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals
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:

DLF Info City Developers (Chandigarh) Limited (DLFICDC) was incorporated by the DLF group to construct the Chandigarh Information Technology Park project. The company has completed the construction work and leased out the property.

About DCCDL:

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. Currently, it has a operational leasable potential of 30.3 mn sq ft with average occupancy of 95%.

Key financial indicators (audited) – Consolidated

	FY2018	FY2019	FY2020 (Unaudited)
Operating Income (Rs. crore)	3924.34	3,958.80	4437
PAT (Rs. crore)	1420.54	1,399.56	1317
OPBDIT/OI (%)	64.17%	67.31%	69.26%
RoCE (%)	14.03%	13.98%	-
Total Outside Liabilities/Tangible Net Worth (times)	2.54	2.41	-
Total Debt/OPBDIT (times)	6.91	6.32	6.35
Interest Coverage (times)	1.50	1.55	1.79
DSCR	1.34	1.18	-

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)					Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating June 26, 2020	Date & Rating May 24, 2019	Date & Rating in FY2019 October 12, 2018	Date & Rating in FY2018 August 4, 2017	Date & Rating in FY2018 April 12, 2017	Date & Rating in FY2017 December 31, 2016	Date & Rating in FY2017 August 2, 2016	Date & Rating in FY2017 April 7, 2016
1	Term Loans	Long Term	213	213*	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A (SO) (Stable)	[ICRA]A (SO) (Stable)	[ICRA]A (SO) (Stable)	[ICRA]A (SO) (Stable)	[ICRA]A (SO) (Stable)

*as on March 31, 2020

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	Mar-17	-	Mar-29	213	[ICRA]AA-(Stable)
					213	

Source: DPSL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
DLF Cyber City Developers Limited (Holding Company)	**-**	**Full Consolidation**
Subsidiary companies		
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
DLF Power & Services Limited	100%	Full Consolidation
DLF Promenade Limited	100%	Full Consolidation
Richmond Park Property Management Services Limited	100%	Full Consolidation

Source: FY2019 Audited Financial Statement

#Transferred to DCCDL during FY2020 and considered a part of consolidated analysis from the date of transfer.

Analyst Contacts

Shubham Jain
+124-4545 306
shubhamj@icraindia.com

Rashmi Agarwal
+124-4545 871
rashmi.agarwal@icraindia.com

Mahi Agarwal
+33-7150 1106
mahi.agarwal@icraindia.com

Relationship Contact

L. Shivakumar
+91-22-30470005
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999