June 12, 2019

DLF Promenade Limited: Long-term rating assigned; outstanding rating withdrawn

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	-	380.00	[ICRA]AA-(Stable); Assigned
Non-Convertible Debenture Programme	375.00	-	[ICRA]AA(SO) (Stable); Withdrawn
Total	**375.00**	**380.00**	

*Instrument details are provided in Annexure-1

Rationale

The Structured Obligation (SO) rating, assigned earlier to the Rs. 375 crore non-convertible debenture programme of DLF Promenade Limited (DPL), which was specific to the rated issue, its terms and its structure, has been withdrawn, post exercise of the early redemption option.

A fresh rating has been assigned to the proposed Rs. 380 crore non-convertible debenture programme of DPL, based on a consolidated rating view for DLF Cyber City Developers Limited (DCCDL) and its subsidiaries, namely DLF Assets Private Limited, DLF Power & Services Limited, DLF Info City Developers (Kolkata) Limited, DLF Info City Developers (Chandigarh) Limited, DLF Emporio Limited, DLF Promenade Limited (hereinafter referred to as 'DCCDL or DCCDL group'), given the presence of strong operational, financial and managerial linkages between the companies. Further, while 66.67% of DCCDL is held by DLF Limited (DLF, rated [ICRA]A+(Positive)/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. ICRA also notes that no incremental financial support is expected to be extended by DCCDL to DLF, as has been the case since the stake sale to GIC in December 2017.

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 27.9 mn. sq. ft. in December, 2018, post operationalization of one block of DLF Chennai SEZ in H2FY2019. Further increase is expected going forward as well, with the Group's biggest under-construction property, DLF Cyber Park (Gurgaon) having a leasable area of 2.5 mn. sq. ft., expected to commence operations in Q2 FY2020. Notably, the project has witnessed healthy pre-leasing, with ~92% of the leasable area having been committed as on March 31, 2019 on the back of buoyant market demand for Grade A commercial office space in Gurugram. Further growth in lease rentals is expected from rent revisions on re-leasing agreements, with the Group's current weighted average lease rental rates being around 15-20% lower than the prevailing market rates, and from rental income generated from assets being transferred from DLF. Significant progress has been made in recent months towards the settlement of interest-bearing advances that had been extended by DCCDL to DLF, through both cash and transfer of rent-generating assets, although ICRA notes that there has been some postponement in the settlement as against ICRA's earlier expectations, largely on account of delays in receipt of regulatory approvals required for the transfer of the identified assets. Advances amounting to Rs. 1,885 crore were settled in FY2019, post which Rs. 7,650 crore remained outstanding as on March 31, 2019. Further, Rs. 330 crore was settled in April, 2019 and another major portion amounting to Rs. 2,950 crore is expected to be settled in May, 2019. Additional assets valued at around ~Rs. 3,700 crore have also been identified by DLF for transfer within September, 2019. However, the final timing and form of settlement of these advances will remain a key rating monitorable.

Overall, DCCDL's portfolio of completed development remains strong, with diverse, high quality assets having favourable locations attracting a reputed tenant profile and underpinning consistently high occupancy levels, although ICRA notes that ~57% of the leasable area is concentrated in Gurgaon, which exposes the Group to geographic concentration risks. The portfolio includes DPL's single property - DLF Promenade Mall, having 0.46 msf of leasable area, located in the upscale locality of Vasant Kunj in Delhi. The mall has successfully been leased to a diversified and reputed tenant base, with occupancy levels above 95% over the past few years. These strong operating metrics support the cash flow cover on the loans availed against the mall's rentals, with the presence of a debt service reserve account (DSRA) and an escrow structure providing additional comfort.

On a consolidated basis, revenue from rentals registering a growth of 9% increasing to Rs. 1,940 crore in 9MFY2019 as compared to Rs. 1,774 crore in 9MFY2018, and the further increase expected in the same going forward is likely to support the overall financial profile, keeping cash covers adequate and leverage indicators modest. Nonetheless, DCCDL's ability to maintain high occupancy levels in its operational and upcoming commercial properties will remain a key credit monitorable, given that the lock-in period has expired for most of the 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. ICRA notes that some of DCCDL's debt (construction finance) has bullet maturity, and expects the same to be refinanced, basis the adequate rental generation capacity of the underlying assets (associated with these debt liabilities), which provides DCCDL the flexibility to avail longer tenure lease rental discounting (LRD) loans. 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 ~26.2 million (mn) sq.ft, over and above the on-going development of ~ 3.2 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 of new rent generating assets and regular escalation in rentals in operational projects.

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. ICRA notes that DCCDL has concluded the second tranche of share buy-back in March 2019, with the same leading to an outflow of around Rs. 1,680 crore, which was primarily funded through funds received from advance settlement by DLF.

Going forward, DCCDL's ability to maintain occupancy levels in its completed portfolio, renew leases at adequate rates and manage execution and market risks associated with the development portfolio, together with the final timing and form of settlement of interest-bearing advances extended to DLF, would be the key rating sensitivities. Moreover, timely refinancing of debt and movement in overall leverage levels be other key rating monitorables.

Outlook: Stable

ICRA believes that DCCDL will continue to benefit from its strong portfolio of completed assets with high occupancy levels and a reputed tenant profile. Growth in the portfolio through ongoing development and transfer of assets from DLF are expected to further support rental income and also improve the Group's debt raising potential. The outlook may be revised to 'Positive' 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. The outlook may, however, be revised to 'Negative' in case of further delays in the settlement of advances, or if the ramp-up in rentals in slower-than-expected or debt build up is higher than expected leading to lower-than-expected cash cover.

Key rating drivers

Credit strengths

Strong operational profile on a consolidated basis, marked by high occupancy and strong rentals - DCCDL at present has ~27.9 mn sq ft of operational area. A large part of the leasable portfolio, (~26.5 mn sq.ft area) is available for commercial leasing while the balance is earmarked for the retail space. Most properties are of high quality, and are favourably located, and have therefore attracted marquee tenants, with the consolidated portfolio enjoying healthy occupancy of 95% (on average) at present.

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 biggest under-construction property, DLF Cyber Park, Gurgaon, having a leasable area of 2.5 mn. sq. ft., is expected to commence operations in Q2 FY2020. Notably, the project has witnessed healthy pre-leasing, with ~92% of the leasable area having been committed as on March 31, 2019 on the back of buoyant market demand for Grade A commercial office space in Gurugram. With this increase in leasable area, overall lease rentals are expected to increase significantly over the near to medium term. Further growth in lease rentals is expected from rent revisions on re-leasing agreements, with the Group's current weighted average lease rental rates being around 15-20% lower than the prevailing market rates, and from rental income generated from assets being transferred from DLF.

Progress in the settlement of interest-bearing advances – There has been progress towards settlement of interest-bearing advances that have been extended by DCCDL to DLF Limited. DLF has settled advances amounting to Rs. 1,885 crore in FY2019, post which Rs. 7,650 crore remained outstanding as on March 31, 2019. Further, Rs. 330 crore was settled in April, 2019 through transfer of a land parcel and another major portion is expected to be settled in May, 2019 through the transfer of Mall of India, Noida valued at Rs. 2,950 crore. Additional assets valued at around ~Rs. 3,700 crore have also been identified by DLF for transfer within September, 2019. The assets received out of transfer will lead to additional rental of around Rs. 400-450 crore.

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.

Stable rental income in DPL from favourably located retail property with high occupancy further supports cash flows; loans availed against the same carry a DSRA and an escrow mechanism – DPL currently owns a single property – DLF Promenade Mall, with 0.46 msf of leasable area. The mall is located in the upscale locality of Vasant Kunj in Delhi, with good accessibility and adequate catchment area, which, in turn, has resulted in occupancy levels above 95% over the last few years. The tenant profile of the mall is diversified and includes reputed anchors such as as Zara, Mark & Spencer, Zodiac, Tommy Hilfiger, PVR Cinemas etc. The cash flow cover on the loans is adequate, and the presence of a debt service reserve account (DSRA) equivalent to three months of interest, as well as an escrow structure, provides additional comfort.

Credit challenges

Exposure to geographical concentration risks - DCCDL's leasing portfolio of ~27.9 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.

Refinancing of certain debt having bullet repayment –ICRA notes that some of DCCDL's debt (construction finance) has bullet maturity, and expects the same to be refinanced, basis the adequate rental generation capacity of the underlying assets (associated with these debt liabilities), which provides DCCDL the flexibility to avail longer tenure lease rental discounting (LRD) loans.

Risks associated with development capex - The current organic development potential with DCCDL is ~26.2 mn sq ft, apart from the ongoing development of 3.3 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 of new rent generating assets and regular escalation in rentals in operational projects.

Liquidity Position:

The company's liquidity profile remains strong, aided by healthy cash flow generation from stable rentals being generated from a diversified portfolio of leased assets. Also, the company, as a philosophy maintains at least six months of upcoming debt repayment as cash balance, which provides further comfort. ICRA expects the liquidity profile of the company to remain healthy over the near term, despite the significant repayment obligations present in the near term, given the advanced stage of refinancing of the same, as indicated by the management.

Analytical approach:

Analytical Approach	**Comments**
Applicable Rating Methodologies	Rating Methodology for Debt Backed by Lease Rentals ICRA Policy on Withdrawal and Suspension of Credit Rating
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:

DPL was incorporated in 1999. It developed a retail mall in Vasant Kunj under the brand name DLF Promenade. DLF Promenade Mall is a fashion mall catering to the mid-market as well as high end merchandise. In total there is 461730 sq ft of leasable area in DPL. The mall houses lifestyle brands with anchor tenants such as Zara and Mark & Spencer.

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 27.7 mn sq ft with average occupancy of 95%.

In FY2018, the company reported a net profit of Rs. 1,423.30 crore on an OI of Rs. 3,924.34 crore compared to a net profit of Rs. 1,249.38 crore on an OI of Rs. 3,800.86 crore in the previous year. Further, the company reported net profit of Rs. 1,052 crore in 9MFY2019 on an operating income of Rs. 2,970 crore.

Key financial indicators (audited) – Consolidated

	FY2017	FY2018	9MFY2019*
Operating Income (Rs. crore)	3800.86	3924.34	2970
PAT (Rs. crore)	1249.38	1423.30	1052
OPBDIT/OI (%)	64.48%	64.17%	68%
RoCE (%)	13.68%	14.03%	-
Total Debt/TNW (times)	1.85	2.24	-
Total Debt/OPBDIT (times)	6.54	6.91	-
Interest Coverage (times)	1.74	1.50	1.55

**Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last 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 Jun-19	Date & Rating in FY2019 Nov-18	Date & Rating in FY2018 Nov-17	Date & Rating in FY2017 Nov-16
1	Non-convertible Debenture	Long Term	375	-	[ICRA]AA(SO) (Stable); Withdrawn	[ICRA]AA(SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)
2	NCD	Long Term	380	**380**	[ICRA]AA- (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
INE865N07018	NCD	12-Jun-14	10.90%	Dec 2021	375.0	[ICRA]AA(SO) (Stable); withdrawn
INE865N07026	NCD	10-Jun-19	9.25%	10-Jun-28	380.0	[ICRA]AA-(Stable)

Source: DPL

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		
Caraf Builders & Constructions Private Limited*	100%	Full Consolidation
DLF Assets Private 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
DLF Power & Services Limited	100%	Full Consolidation
DLF Promenade Limited	100%	Full Consolidation
Richmond Park Property Management Services Limited	100%	Full Consolidation

Source: FY2018 Audited Financial Statement

*merged with DCCDL w.e.f. September 27, 2018

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