April 13, 2017

DLF Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Term Loan	3563 (earlier 3877)	[ICRA]A (Stable) (reaffirmed)
Fund Based Limits	2085	[ICRA]A (Stable) (reaffirmed)
Non-Fund Based Limits	1150 (earlier 1200)	[ICRA]A (Stable) (reaffirmed)
NCD	4000[1]	[ICRA]A (Stable) (reaffirmed)
Total	**10,798 (earlier 11,162)**	

**Instrument Details are provided in Annexure-1*

Rating Action

ICRA has reaffirmed the long-term rating for the reduced amount of Rs. 6,798-crore[2](earlier Rs. 7,162-crore) bank facilities of DLF Limited (DLF) at [ICRA]A (pronounced as ICRA A)[3]. The outlook on the long-term rating is 'Stable'. ICRA has also reaffirmed the long term rating of [ICRA]A (Stable) for Rs 4,000 crore NCD programme of DLF.

Rationale

The rating reaffirmation draws support from the significant progress achieved by DLF towards its debt reduction initiatives. In March 2017, DLF has entered into an exclusivity agreement with an affiliate of GIC Singapore for the purpose of negotiating definitive transaction documents for the sale of promoter's holding in group's rental arm viz. DLF Cyber City Developers Limited (DCCDL). ICRA notes that DLF and its promoters are committed towards material debt reduction over the short term through various initiatives, mainly through promoters divesting their stake in DCCDL and re-investing substantial proceeds back into DLF Limited. While ICRA expects DLF's debt to increase in the short term on account of poor real estate demand outlook and DLF's continued focus on completion of existing projects; the conclusion of the proposed transaction in a timely manner and infusion of funds in DLF by the promoters should help DLF to moderate the pressure on its cash flows and help achieve the intended material reduction in its debt. Timely conclusion of the said transaction and overall equity infusion by the promoters in DLF will be the key monitorables over the short term.

ICRA's rating continues to draw comfort from the lease rental portfolio of DLF which lends stability to the cash flows of the group. The lease rentals have improved steadily from Rs. 2,093 crore in FY2015 to Rs. 2,310 crore in FY2016 and further to Rs. 1,966 crore in 9MFY2017. The increase in rental revenues has been supported by the increase in the leased area as well as improvement in the average rental rates. The leased area increased from 28.58 mn sq ft at the end of FY2015 to 29.83 mn sq ft at the end of December 2016.

The rating reaffirmation also favorably factors in DLF's established market position in the domestic real estate sector; it's diversified, well located and low-cost land bank. In addition, ICRA has taken note of the changing maturity profile of debt as well as reduction in cost of funds. While the changing maturity profile moderates the pressure on cash flows in the near term to an extent; it does expose DLF to refinancing risk on account of bunching up of repayments in the medium term. Nevertheless, ICRA believes the proposed infusion of funds by the promoters in the near term will mitigate these risks.

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1 *Rs. 2500 crore is yet to be placed as on March 31, 2017*

2 *100 lakh = 1 crore = 10 million*

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

The rating strengths are offset on account of high debt levels resulting in moderate debt coverage indicators for the company and sluggish demand in the real estate sector that poses a challenge to the company in maintaining its sales, thus, resulting in poor visibility of cash flows for real estate development business.

DLF's gross debt levels increased from Rs.25,623 crore as on March 31, 2016 to Rs. 27,812 crore[4] as on December 31, 2016 on account of weak operational cash flows leading to continued reliance on incremental debt. High debt levels have resulted in moderate debt coverage indicators for the company in the backdrop of weak operational cash flows. Nevertheless, ICRA draws comfort from Rs. 3,068 crore of cash and cash equivalents with the company at the end of December 31, 2016 and DLF's demonstrated track record with financial institutions/banks..

In 9MFY2017, DLF achieved net sales worth Rs. 780 crore compared to Rs. 2,015 crore over the same period a year ago on account of overall slowdown in real estate demand and specifically in premium segment which is DLF's main segment of operations. Further, ICRA has taken cognizance of DLF's continuing high concentration on Gurgaon real estate market.

While reaffirming the rating, ICRA continues to take note of the various on-going litigations against the company; however the financial impact of the same on DLF cannot be fully ascertained at this stage since the cases are sub-judice. Nonetheless, the company has deposited some money in certain cases which will provide liquidity support in case of any adverse judgment. In addition, ICRA takes cognizance of the SEBI's pending appeal[5] and will monitor the outcome on the credit risk profile of DLF and on its divestment plans, if any.

Going forward, significant reduction in DLF's debt levels in the near term through the proposed CCPS transaction and subsequent planned equity raising initiative and improvement in the cash flows from its core real estate development operations would be amongst the key rating sensitivity factors.

Key rating drivers

Credit Strengths
- Healthy lease income portfolio provides stability to DLF's otherwise volatile real estate cash flows
- Established position in the real estate sector as reflected by its presence across product segments and across key micro-markets in the country
- Low cost, well located and diversified land bank provides ease of monetisation; land bank largely paid up and the remaining committed payments evenly spread over the medium term

Credit Weakness
- Debt levels continue to remain high as on December 31, 2016 resulting in relatively moderate debt protection indicators and exposes the company to refinancing risk given the debt repayment in the medium term
- Poor visibly of real estate development cash flows on account of sluggish demand for real estate. It exposes the company to high marketing risk
- Significant contingent liabilities and pending litigations can put its cash flows under pressure in case of an adverse decision

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[4] *As per Q3FY2017, IndAS Gross debt position was Rs. 27,465 crore*

[5] *SEBI has filed a statutory appeal under section 15Z of SEBI Act before Hon'ble Supreme Court of India. The case pertains to a SEBI order dated October 10, 2014, restraining the Company and six others from accessing the securities market and prohibiting them from buying, selling or otherwise dealing in securities, directly or indirectly, in any manner, whatsoever, for a period of three years. Securities Appellate Tribunal (SAT) vide its order dated March 13, 2015 allowed all the appeals and the impugned order passed by SEBI had been quashed and set aside*

Description of key rating drivers highlighted above:

DLF was established in 1946. It was one of the early entrants amongst the Indian private real estate developers and has since then emerged as the largest developer (by market capitalization) in the Indian realty industry. Its leading market position in the domestic real estate sector is reflected by its presence across residential, commercial and retail segments as well as across key micro-markets in the country.

As on December 31, 2016, the company has 23 mn sq ft of total area under development; of which a large part is expected to be delivered over the next 18-24 months. Major part of DLF's real estate portfolio is focused towards residential segment, and developable area of about 4.1 mn sq.ft. is being developed for commercial/retail / IT segment.

While DLF has an established position in the real estate space in the National Capital Region (NCR), it also has projects in other metro cities like Bangalore, Chennai, Kolkata, Hyderabad etc. Apart from the metro cities, DLF is also developing projects in Tier-I & Tier-II cities like Panchkula, Lucknow, and Kochi. The geographical diversification helps to de-risk its portfolio from exposure to a single region as well as leverage on the growth opportunities in these regions. Nonetheless, Gurgaon continues to account for a significant part of its under-construction and to-be constructed portfolio.

Lease income from the commercial and retail segment form the annuity business of the company. The company in FY2015, earned about Rs. 2,093 crore as rental income and the same was Rs. 2,310 crore in FY2016. In 9MFY2017, the rentals stood at Rs. 1,966 crore from a total leased area of around 29.83 mn sq ft. It provides a stable stream of cash flows thus supporting the otherwise volatile real estate revenues of the company.

DLF has a significant land bank with a developable potential of about 264 mn sq.ft which is spread across multiple cities in the country. Further, considering that a significant portion of DLF's land bank is in prime locations and has been acquired at relatively lower costs, it enhances the inherent profitability of the projects and competitiveness. The diversified as well as low cost land bank also helps DLF in establishing itself as a pan-India player and provides flexibility to launch the projects across various price segments. ICRA has also taken note of the aggressive land acquisition strategy adopted by DLF in the past; however, ICRA continues to derive comfort from the company's stated intent of going in for limited land acquisition in future, given the significant land bank it already has in place.

DLF's gross debt levels increased from Rs.25,623 crore as on March 31, 2016 to Rs. 27,812 crore[6] as on December 31, 2016 on account of weak operational cash flows leading to continued reliance on incremental debt. High debt levels have resulted in moderate debt coverage indicators for the company while also exposing it to refinancing risks given the high repayment obligations falling due in the short to medium term in the backdrop of weak operational cash flows. Nevertheless, ICRA draws comfort from Rs. 3068 crore of cash and cash equivalents with the company at the end of December 31, 2016.

In March 2017, DLF has entered into an exclusivity agreement with an affiliate of GIC Singapore for the purpose of negotiating definitive transaction documents for the sale of promoter's holding in group's rental arm viz. DLF Cyber City Developers Limited (DCCDL). ICRA notes that DLF and its promoters are committed towards material debt reduction over the short term through various initiatives, mainly through promoters divesting their stake in DCCDL and re-investing substantial proceeds back into DLF Limited. While ICRA expects DLF's debt to increase in the short term on account of poor real estate demand outlook and DLF's continued focus on completion of existing projects; the conclusion of the

[6] *As per Q3FY2017, IndAS Gross debt position was Rs. 27,465 crore*

proposed transaction in a timely manner and infusion of funds in DLF by the promoters should help DLF to moderate the pressure on its cash flows and help achieve the intended material reduction in its debt. Timely conclusion of the said transaction and overall equity infusion by the promoters in DLF will be the key monitorable over the short term.

In 9MFY2017, DLF achieved net sales worth Rs. 780 crore compared to Rs. 2,015 crore over the same period a year ago on account of overall slowdown in real estate demand and specifically in premium segment which is DLF's main segment of operations. Further, ICRA has taken cognizance of DLF's continuing high concentration on Gurgaon real estate market.

The Company has significant contingent liabilities mainly on account of income tax, service tax etc related matters and the penalty imposed by Competition Commission of India (CCI) in August 2011 for allegedly following unfair practices. ICRA continues to take note of such on-going litigations against the company; however the financial impact of the same on DLF cannot be fully ascertained at this stage since the cases are sub-judice. ICRA will continue to monitor the outcome of these cases and their impact on the credit profile of the company

Analytical approach: ICRA continues to take a consolidated view of DLF and its subsidiaries given the strong operational, financial and management linkages among various entities.

Links to applicable Criteria:
Corporate Credit Rating –A Note on Methodology
ICRA Rating Methodology: Real Estate Entities

About the Company:
DLF Limited is the largest domestic real estate developer with more than 50 years of experience in developing real estate. The company has developed more than 250 million sq.ft. It is credited for developing many well known urban colonies in Delhi, including South Extension, Greater Kailash, Kailash Colony and Hauz Khas as well as one of Asia's largest private townships "DLF City" in Gurgaon, Haryana. DLF is currently developing 23 mn. sq.ft. across the country. Some of its key subsidiaries based on subscribed equity capital are DLF Assets Limited (rated [ICRA]A (SO) (Stable)) and DLF Cyber City Developers Limited (rated [ICRA]A (SO) (Stable)).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years					
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month- year & Rating in FY2017			Month-year & Rating in FY2016	Month- year & Rating in FY2015	
				April-17	December 2016	July 2016	April 2016	April 2015	October 2014	April 2014
1	Term Loans	Long Term	3563	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Negative)**	**[ICRA]A (Negative)**	**[ICRA]A@**	**[ICRA]A (Stable)**
2	Non-Fund Based Limits	Long Term	1150	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Negative)**	**[ICRA]A (Negative)**	**[ICRA]A@**	**[ICRA]A (Stable)**
3	Fund Based Limits	Long Term	2085	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Negative)**	**[ICRA]A (Negative)**	**[ICRA]A@**	**[ICRA]A (Stable)**
4	NCD	Long Term	4000	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Negative)**	**[ICRA]A (Negative)**	**[ICRA]A@**	**[ICRA]A (Stable)**
@: Rating watch with negative implication										

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

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date / Month	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loan				**3563**	
Term Loan 1			April 2017	3	[ICRA]A (Stable)
Term Loan 2			July 2019	255	[ICRA]A (Stable)
Term Loan 3			March 2018	292	[ICRA]A (Stable)
Term Loan 4			March 2019	120	[ICRA]A (Stable)
Term Loan 5			September	229	[ICRA]A (Stable)
Term Loan 6			October 2020	555	[ICRA]A (Stable)
Term Loan 7			March 2020	150	[ICRA]A (Stable)
Term Loan 8			July 2021	1102	[ICRA]A (Stable)
Term Loan 9			July 2021	559	[ICRA]A (Stable)
Term Loan 10			March 2025	238	[ICRA]A (Stable)
Term Loan 11			March 2025	60	[ICRA]A (Stable)
Fund Based				**2085**	
- Overdraft	-	-	Revolving	605.0	[ICRA]A (Stable)
- Overdraft	-	-	Revolving	1480.0	[ICRA]A (Stable)
Non-Fund				**1150.0**	
- Bank	-	-	Revolving	950.0	[ICRA]A (Stable)
- Letter of	-	-	Revolving	200.0	[ICRA]A (Stable)
NCD-I	30-Apr-13	12.50%	30-Apr-18	125	[ICRA]A (Stable)
NCD-II	11-Aug-15	12.25%	11-Aug-17	250	[ICRA]A (Stable)
NCD-III	11-Aug-15	12.25%	11-Aug-18	250	[ICRA]A (Stable)
NCD-IV	11-Aug-15	12.25%	11-Aug-19	250	[ICRA]A (Stable)
NCD-V	11-Aug-15	12.25%	11-Aug-20	250	[ICRA]A (Stable)
NCD-VI	24-Aug-15	12.25%	11-Aug-17	90	[ICRA]A (Stable)
NCD-VII	24-Aug-15	12.25%	10-Aug-18	95	[ICRA]A (Stable)
NCD-VIII	24-Aug-15	12.25%	9-Aug-19	95	[ICRA]A (Stable)
NCD-IX	24-Aug-15	12.25%	10-Aug-20	95	[ICRA]A (Stable)
NCD (not	-	-	-	2500	[ICRA]A (Stable)

Source: DLF

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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.

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.

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