# DLF Limited

August 09, 2018

## Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Non-Convertible Debenture Programme | 3,535.0 | 3,535.0 | [ICRA]A+ (Positive); revised from [ICRA]A (Stable) |
| Commercial Paper | 1,000.0 | 1,000.0 | [ICRA]A1; reaffirmed |
| Fund based - Term Loan | 3,563.0 | 2,139.95 | [ICRA]A+ (Positive); revised from [ICRA]A (Stable) |
| Fund based - Working Capital Facilities | 2,085.0 | 2,142.0 | [ICRA]A+ (Positive); revised from [ICRA]A (Stable) |
| Non-fund based - Working Capital Facilities/Bank Guarantee | 1,150.0 | 1,150.0 | [ICRA]A+ (Positive); revised from [ICRA]A (Stable) |
| Non-Convertible Debenture Programme | 125.0 | - | [ICRA]A (Stable); withdrawn |
| **Total** | **11,458** | **9,966.95** | |

*Instrument details are provided in Annexure-1

## Rating action

ICRA has upgraded the long-term rating to [ICRA]A+ (pronounced ICRA A plus) from [ICRA]A (pronounced ICRA A) for the Rs. 2,139.95-crore (reduced from Rs. 3563-crore) term loan of Rs. 2,142-crore (increased from Rs. 2,085-crore) working capital facility and Rs. 1,150-crore non-fund based limits of DLF Limited (DLF). ICRA has also upgraded the long-term rating to [ICRA]A+ (pronounced ICRA A plus) from [ICRA]A (pronounced ICRA A) assigned to the Rs. 3,535-crore non-convertible debenture (NCD) programme of DLF Limited. Further, ICRA has reaffirmed the short-term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs. 1,000-crore commercial paper programme of DLF. The outlook on the long-term rating has been revised from Stable to Positive.

ICRA has also withdrawn the long-term rating of [ICRA]A (pronounced ICRA A) assigned earlier to the Rs. 125 crore NCD programme of DLF. The rating is withdrawn in accordance with ICRA's policy on withdrawal and suspension and at the request of the company as the amount has been entirely repaid.

## Rationale

ICRA has taken a consolidated view of DLF Limited and its subsidiaries given strong operational, financial and management linkages among various entities. Some of the major subsidiaries are DLF Home Developers Limited, DLF Utilities Limited, DLF Hotel Holdings Limited, DLF Luxury Homes Limited, Lodhi Property Company Limited, Nambi Buildwell Private Limited etc.

The rating upgrade and outlook revision reflects the notable reduction in DLF's debt level after the promoters infused funds in it post sale of their 40% stake in DLF Cyber City Developers Limited (DCCDL). DLF's gross debt and net debt reduced from Rs. 13,629[1] crore and Rs. 12,052 crore respectively as on September 30, 2017 to Rs. 9,493 crore and Rs.

[1] Prior to the sale of 40% promoter stake in DCCDL, the DCCDL group was consolidated with DLF group. The consolidated debt (including DLF group and DCCDL group) at the end of September 30, 2017, was Rs. 29,047 crore.

6,265 crore at the end of March 31, 2018. Further, the ratings draw comfort from management's stated intention of achieving net debt free status by March 2019. The planned Qualified Institutional Placement (QIP) and warrants conversion will be two critical equity raising events which will aid the company's debt reduction programme. The QIP, expected to be concluded in H2FY2019, will yield a significant amount. Also, the conversion of warrants issued to promoters into equity shares by June 2019 would lead to an inflow of Rs. 2,250 crore for DLF. ICRA believes that timely conclusion of these transactions and the total quantum raised should further support the cash flows of the company and significantly improve its capital structure while strengthening its credit risk profile.

The rating upgrade also factors in healthy sales and collections reported by the company in five months ending March 2018 led by healthy sales in DLF5 wherein Occupation Certificate (OC) has been received for Crest and Camelia. DLF has reported Rs. 1,615 crore sales and Rs. 900 crore collections during the said period. Further, the company has pending receivables of Rs. 3,350 crore and unsold inventory of ~Rs. 14,000 crore as on March 31, 2018. Most of these are attributable to finished inventory which is expected to be handed over in the near term, leading to faster collections and underpin future sales velocity thereby supporting the cash flows. ICRA further notes that, the company's pending cost of Rs. 3,633 crore towards its ongoing projects moderates execution risk with most of the on-going projects either at intermediate or advanced stages of completion.

ICRA's rating continues to favourably factor in DLF's presence in all segments namely residential, commercial and retail which enables it to address a wider buyer market. Further, DLF's land bank is characterised by low acquisition cost, good location and diversity of land use, thereby providing it flexibility in case of any exigency. Further, the land bank is largely paid up and the remaining committed payments are evenly spread over the medium term and primarily relate to the pending payment of ~ Rs. 1,300 crore towards HSIIDC land. Going forward, any such discretionary outflows will be a key credit monitorable.

Notwithstanding the pending collections and large finished inventory, exposure to marketing risk for DLF remains high. With a significant proportion of the pending inventory attributable to ultra-premium segment, the ability to maintain sales will remain a key sensitivity going forward. The risk is further accentuated as a large part of the inventory is in Gurgaon, a market that had witnessed demand headwinds over the last few years.

In addition, the rating factors in the maturity profile of DLF's debt outstanding as on March 31, 2018 where-in a large proportion of the debt is coming up for repayment over the near to medium term. Nevertheless, ICRA's rating draws comfort from the cash balance of Rs. 3,228 crore as on March 31, 2018 which coupled with the expected proceeds from the QIP and warrants conversion will support the debt repayment as well as debt reduction programme of DLF. Also, the ratings factor in the significant interest-bearing advances that have been extended by DCCDL group to DLF group. ICRA takes cognisance of the fact that post the DCCDL stake sale, these significant advances will be returned - either in cash or by transfer of developed/undeveloped assets - to DCCDL within next 12 to 18 months. The timing and form of settlement of these advances will be among the key monitorables.

Moreover, ICRA's rating remains constrained by company's operating loss in Q4FY2018 led by high overheads. ICRA notes that some of these overheads like legal and professional fees, miscellaneous charges (recruitment and training etc) included one-time expenses. Nevertheless, sustained reduction in overhead expenses in the near term would remain critical for the company's profitability. ICRA also notes that DLF has significant contingent liabilities, mainly because of matters related to income tax, service tax etc and penalty imposed by the Competition Commission of India (CCI) in August 2011. However, the company has deposited some money at the time of filling appeals with the respective tax authority as well as Rs. 630 crore with the Hon'ble Supreme Court towards CCI penalty, which will provide liquidity support in case of any adverse judgment.

Going forward, timely completion of the QIP and warrants conversion leading to debt reduction, timing and form of settlement of advances received from DCCDL along with sustained sales momentum and collections will remain key rating monitorable. Further, DLF's policy on land acquisition as well as capital expenditure and its mode to fund the same will also remain the key rating monitorable.

## Outlook: Positive

ICRA believes that the planned QIP and warrants conversion would lead to healthy cash inflows for the company which will be utilised for debt reduction and would support the operational cash flows. The outlook may be revised to Stable in case of any delay in these transactions or lower-than-expected inflows from the QIP deal resulting in lesser-than-expected debt reduction. The rating may, however, be upgraded, if DLF is able to conclude the transactions in a timely manner leading to substantial reduction in debt and achieve better than expected sales velocity.

## Key rating drivers

## Credit strengths

- **Reduction in debt**: There has been significant reduction in DLF's debt outstanding after the promoters infused funds in DLF post sale of their 40% stake in DLF Cyber City Developers Limited (DCCDL). Consequent to the deal, DLF's gross debt and net debt reduced from Rs. 13,629[2] crore and Rs. 12,052 crore respectively as on September 30, 2017 to Rs. 9,493 crore and Rs. 6,265 crore at the end of March 31, 2018. The company also holds a cash balance of Rs. 3,228 at the end of March 31, 2018. Further, the proceeds planned QIP issue and conversion of warrants will be used towards prepayment of debt. This will help in further debt reduction.
- **Healthy sales velocity and collection**: DLF reported healthy sales and collections in five months ending March 2018 led by healthy sales in DLF5 wherein Occupation Certificate (OC) has been received for Crest and Camelia. DLF has reported Rs. 1,615 crore sales and Rs. 900 crore collections during the said period
- **Pending collection and finished inventory provides cash flow visibility**: The company has pending receivables of Rs. 3,350 crore and unsold inventory of ~Rs. 14,000 crore as on March 31, 2018. Most of these are attributable to finished inventory which is expected to be handed over in the near term, leading to faster collections and underpin future sales velocity thereby supporting the cash flows.
- **Moderate execution risk**: The company has pending cost towards ongoing projects amounting to Rs. 3,633 crore. As most of the on-going projects are either at intermediate or advanced stage of completion, exposure to execution risk remains moderate.
- **Diversified presence**: Presence in all segments, namely residential, commercial and retail and across various locations in the country enables a wider buyer coverage.
- **Low cost, well located and diversified land bank:** DLF's land bank is characterised by low acquisition cost, good location and diversity of land use, providing it flexibility in case of any exigency. Further, the land bank is largely paid up and the remaining committed payments are evenly spread over the medium term. However, ICRA notes that payment of around Rs. 1,300 crore is pending towards HSIIDC land.

[2] Prior to the sale of 40% promoter stake in DCCDL, the DCCDL group was consolidated with DLF group. The consolidated debt (including DLF group and DCCDL group) at the end of September 30, 2017, was Rs. 29,047 crore.

## Credit challenges

- **Maturity profile of debt:** A significant portion of the total debt is to be paid in the next two years which in the absence of adequate sales may put pressure on cash flows. Nevertheless, ICRA's rating draws comfort from the cash balance of Rs. 3,228 crore as on March 31, 2018 which coupled with the expected proceeds from the QIP and warrants conversion will support the debt repayment as well as debt reduction programme of DLF.
- **Operating loss in Q4FY2018**: DLF has reported loss at OI in Q4FY2018 due to high overheads. ICRA notes that some of these overheads like legal and professional fees, miscellaneous charges (recruitment and training etc) included one-time expenses. Neverthless, sustained reduction in the overhead costs and the pickup in the sales volume would remain critical for the company.
- **Marketing risk**: Notwithstanding the pending collections and large finished inventory, exposure to marketing risk for DLF remains high. With a significant proportion of the pending inventory attributable to ultra-premium segment, the ability to maintain sales will remain a key sensitivity going forward. The risk is further accentuated as a large part of the inventory is in Gurgaon, a market that has been witnessing demand headwinds over the last few years.
- **Discretionary land acquisitions**: In the recent past, the company acquired 11.56 acres of land from HSIIDC for Rs. 1,601 crore. ICRA notes that any such discretionary outflows in the future will put pressure on cash flows.
- **Settlement of advances from DCCDL:** DLF has significant interest-bearing advances that have been extended by DCCDL. ICRA takes cognisance of the fact that post the DCCDL stake sale, these significant advances will be returned - either in cash or by transfer of developed/undeveloped assets - to DCCDL within 12 to 18 months. The timing and form of settlement of these advances will remain among the key monitorables.
- **Significant contingent liabilities and pending litigations may put cash flows under pressure in case of adverse ruling:** The company has significant contingent liabilities, mainly because of matters related to income tax, service tax etc and penalty imposed by CCI in August 2011. However, the company has deposited some money at the time of filling appeals with the respective tax authority as well as Rs. 630 crore with the Hon'ble Supreme Court towards CCI penalty, which will provide liquidity support in case of any adverse judgment.

**Analytical approach:** ICRA has taken a consolidated view of DLF Limited and its subsidiaries given the strong operational, financial and management linkages among various entities. Some of the major subsidiaries being DLF Home Developers Limited, DLF Utilities Limited, DLF Hotel Holdings Limited, DLF Luxury Homes Limited, Lodhi Property Company Limited, Nambi Buildwell Private Limited etc.

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 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 (mn) 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 10 mn sq ft across the country.

In FY2018, the company reported a net profit of Rs. 4,292.41 crore on an OI of Rs. 6,716.9 crore compared to a net profit of Rs. 800.26 crore on an OI of Rs. 8,246.0 crore in the previous year. The net profit in FY2018 remained high mainly led by extra-ordinary gain of Rs. 9,927 crore arising out of stake sale in DCCDL.

## Key financial indicators (audited) - Consolidated

| | FY2017 | FY2018 |
|---|---|---|
| Operating Income (Rs. crore) | 8,246.0 | 6,716.9 |
| PAT (Rs. crore) | 800.26 | 4,292.41 |
| OPBDIT/OI (%) | 41.94% | 35.55% |
| RoCE (%) | 8.43% | 22.57% |
| | | |
| Total Debt/TNW (times) | 1.18 | 0.49 |
| Total Debt/OPBDIT (times) | 8.45 | 7.33 |
| Interest Coverage (times) | 1.16 | 0.81 |
| NWC/OI (%) | 221% | 290% |

## 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 in FY2019 August 2018** | **Date & Rating in FY2018 Dec 2017** | **Date & Rating in FY2017 Mar 2017** | **Dec 2016** | **Jul 2016** | **Apr 2016** | **Date & Rating in FY2016 Apr 2015** |
| 1 | Commercial Paper | Short Term | 1,000.0 | - | [ICRA]A1 | [ICRA]A1 | | | | - | - |
| 2 | Term Loans | Long Term | 2,139.95 | 1,938.99 | [ICRA]A+ (Positive) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Negative) | [ICRA]A (Negative) |
| 3 | Non-Fund Based Limits | Long Term | 1,150.0 | Revolving | [ICRA]A+ (Positive) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Negative) | [ICRA]A (Negative) |
| 4 | Fund Based Limits | Long Term | 2,148.0 | Revolving | [ICRA]A+ (Positive) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Negative) | [ICRA]A (Negative) |
| 5 | NCD | Long Term | 3,535.0 | 1,035.0 | [ICRA]A+ (Positive) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Negative) | [ICRA]A (Negative) |
| 6 | NCD | Long Term | 125.0 | - | [ICRA]A (Stable); withdrawn | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Negative) | [ICRA]A (Negative) |
| | **Total** | | **11,458.0** | | | | | | | | |

## 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 | 14-Dec-15 | | 30-Jun-19 | 146.69 | [ICRA]A+ (Positive) |
| NA | Term Loan 2 | 30-Mar-15 | | 30-Mar-20 | 99.90 | [ICRA]A+ (Positive) |
| NA | Term Loan 3 | 17-Jul-14 | | 17-Jul-21 | 982.92 | [ICRA]A+ (Positive) |
| NA | Term Loan 4 | 30-Sep-14 | | 17-Jul-21 | 498.87 | [ICRA]A+ (Positive) |
| NA | Term Loan 5 | 11-Jul-17 | | 11-Jul-26 | 129.43 | [ICRA]A+ (Positive) |
| NA | Term Loan 6 | 21-Oct-15 | | 31-Mar-25 | 225.71 | [ICRA]A+ (Positive) |
| NA | Term Loan 7 | 31-Mar-15 | | 31-Mar-25 | 56.43 | [ICRA]A+ (Positive) |
| NA | Overdraft /Working Capital Limits | | | | 2,142.00 | [ICRA]A+ (Positive) |
| NA | Bank Guarantee | | | | 950.00 | [ICRA]A+ (Positive) |
| NA | Letter of Credit | | | | 200.00 | [ICRA]A+ (Positive) |
| INE271C07095 | NCD-I | 30-Apr-13 | 12.50% | 30-Apr-18 | 125.00 | [ICRA]A (Stable); Withdrawn |
| INE271C07111 | NCD-II | 11-Aug-15 | 12.25% | 11-Aug-18 | 250.00 | [ICRA]A+ (Positive) |
| INE271C07129 | NCD-III | 11-Aug-15 | 12.25% | 11-Aug-19 | 250.00 | [ICRA]A+ (Positive) |
| INE271C07137 | NCD-IV | 11-Aug-15 | 12.25% | 11-Aug-20 | 250.00 | [ICRA]A+ (Positive) |
| INE271C07152 | NCD-V | 24-Aug-15 | 12.25% | 10-Aug-18 | 95.00 | [ICRA]A+ (Positive) |
| INE271C07160 | NCD-VI | 24-Aug-15 | 12.25% | 9-Aug-19 | 95.00 | [ICRA]A+ (Positive) |
| INE271C07178 | NCD-VII | 24-Aug-15 | 12.25% | 10-Aug-20 | 95.00 | [ICRA]A+ (Positive) |
| NA | NCD (not placed) | - | - | - | 2,500.00 | [ICRA]A+ (Positive) |
| NA | Commercial Paper (not placed) | - | - | - | 1,000 | [ICRA]A1 |

Source: DLF

## ANALYST CONTACTS

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

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

**Manav Mahajan**
+124-4545 817
manav.mahajan@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:

+91-124-2866928 (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) 6606 9999 |