January 30, 2023

DLF Midtown Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	1,500.0	1,500.0	[ICRA] A (Stable); reaffirmed
Total	**1,500.0**	**1,500.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for DLF Midtown Private limited (DMPL) factors in the extensive experience and financial strength of its promoters. DMPL is a 50:50 joint venture (JV) between DLF Home Developers Limited (DHDL), a wholly-owned subsidiary of DLF Limited {DLF, rated [ICRA]AA-(Positive)/A1+}, and Reco Moti Pte Limited (Reco), a wholly-owned subsidiary of the Government of Singapore Investment Corporation (GIC). The promoters have infused their entire committed funding for the project at an early stage and have also extended a shortfall undertaking on the project debt. ICRA expects the promoters to extend extraordinary support to DMPL, given the business linkages, strategic importance, and the sponsors' reputation sensitivity to default.

The rating also draws strength from the strong market position of DLF Limited, with the premium residential project DLF Mid-Town II, being developed by DMPL under the brand, DLF, in a phased manner. The company is constructing the first phase of the project at present, which has a saleable area of 1.9 million-square-feet (msf) (total saleable area being around 5.9 msf). Further, the favourable location of the project in Moti Nagar, Delhi, with good connectivity, the established position of the already completed DLF Capital Greens project and healthy response to the recently launched DLF One Mid Town (being developed under DLF Urban Private Limited[1] [DUPL], a sister concern of DMPL, in the same micro market), provide comfort. The project has an outlay of Rs. 1,762 crore towards entire land parcel and approval costs, and the company has currently incurred almost the entire land and approval cost. Further, the pending project cost of the first phase of 1.9 msf is around Rs. 1,789.1 crore as on September 30, 2022 (excluding payout to sponsors). The undrawn debt worth around Rs. 1,051.6 crore, along with infusion of promoter funds, moderates the project funding risks to an extent, although ICRA notes that reliance on customer advances will remain high as the project nears completion. Even as the cash flow from operations are expected to remain weak in the initial years on account of higher construction spend, and consequently high leverage, the same is expected to improve post launch of the project. The project is expected to generate healthy surplus, aided by the premium price likely to be commanded by the project owing to its luxury specifications, location, and brand strength of the developer.

The rating strengths, however, are offset by the approval and project risks arising out of the initial stages of project development. Out of the total outlay, of Rs. 3,803.8 crore (excluding payout to sponsors), 53% of the project cost has been incurred till September 30, 2022. The cost incurred primarily comprised that of land and approval as the project construction is at an early stage. ICRA, however, continues to draw comfort from the demonstrated track record of the promoter support. The company is yet to launch the sales in the project, and the market risks for the project remain considerable, given the large inventory to be sold and high-ticket size of the units owing to their luxurious specifications. Nevertheless, the favourable location of the project in Moti Nagar, Delhi, provides comfort. The rating further remains constrained by the geographical and asset concentration risks along with the cyclicality in the real estate sector.

[1] Rated [ICRA]A+ (Stable)

While reaffirming the rating, ICRA has noted the significant contingent liabilities, primarily on account of matters pertaining to the income tax. ICRA will continue to monitor the developments related to these contingent liabilities and take rating action as and when more clarity emerges on the same.

The Stable outlook on the rating reflects extensive experience and financial strength of the promoters, strong brand reputation of DLF, favourable location of the project in West Delhi, with good connectivity, and healthy expected project returns.

Key rating drivers and their description

Credit strengths

Extensive experience and financial strength of DMPL's promoters – DMPL is a 50:50 JV of DHDL and GIC, Singapore. Both DHDL and GIC have established track record of successfully developing and marketing properties. The promoters have infused their entire committed funding for the project at an early stage and have also extended a shortfall undertaking on the project debt. ICRA expects the promoters to extend extraordinary support to DMPL, given the business linkages, strategic importance and the sponsors' reputation sensitivity to default.

Market position strengthened by use of DLF brand and favourable location of the project – The company is developing a premium residential project named DLF Mid-Town II, with 5.9 msf of saleable area in a phased manner. The company is constructing the first phase of the project at present, which has a saleable area of 1.9 msf. The sharing of the DLF brand name, together with the favourable location of the project in Moti Nagar, Delhi, supports its market position. Further, the established position of the already completed DLF Capital Greens project and healthy response to the recently launched DLF One Mid Town being developed under DUPL, a sister concern of DMPL in the same micro market), provides comfort.

Strong financial flexibility – The project's total outlay is proposed to be funded through a mix of promoters' contribution of Rs. 1,616 crore, debt of Rs. 1,500 crore and the balance through customer advances. The promoters have already infused their share of contribution as on date. Further, the debt has been tied up, which further moderates the project funding and completion risks.

Credit challenges

Nascent stage of development and exposure to approval and execution risks – The company remains exposed to high approval and execution risks as the physical project construction remains at an early stage. Out of the total outlay of Rs. 3,803.8 crore (excluding payout to sponsors), 53% of the cost has been incurred till September 30, 2022. ICRA, however, continues to draw comfort from the demonstrated track record of promoter support.

High marketing risk – DMPL is yet to launch sales in the project and the market risks remain considerable given the large inventory to be sold, high ticket size of the units owing to their luxurious specifications and untested market demand for the project. Achievement of timely sales and collections would remain critical for project completion and for meeting debt servicing obligations from operational cash flows. Nevertheless, the established position of the already completed DLF Capital Greens project and healthy response to the recently launched DLF One Mid Town (being developed under DUPL, a sister concern of DMPL in the same micro market), provides comfort.

Concentration risks associated with a single project and exposure to cyclicality in the real estate sector – DLF Midtown II is a single project undertaken by DMPL and is thus exposed to high geographical and asset concentration risks inherent in single-project companies. Any delay in execution or poor response to the project may have an adverse impact on the cash flows of the company. Though, the risk is mitigated to some extent as the project will be developed in phases. Moreover, strong market position of the DLF Group provides comfort. Moreover, the real estate sector is marked by a highly fragmented market structure because of the presence of many regional players. In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which in turn render the company's sales vulnerable to any downturn in demand.

Liquidity position: Adequate

The liquidity position of the company is adequate. The company has undrawn lines of Rs. 1,051.6 crore as on September 30, 2022, which will support the execution of the project. Despite fund infusion by promoters and tie-up of debt, there will be dependence on customer advances to fund part of the project cost. Nonetheless, ICRA draws comfort from the high financial flexibility and refinancing ability of the promoters.

Rating sensitivities

Positive factors – Healthy sales and collections post the market launch, and the resultant improvement in cash flow visibility and cash flow adequacy ratio will be a positive trigger for a rating upgrade.

Negative factors – Pressure on the rating could arise if there are any significant cost and time overrun, weakening the operational and financial risk profiles of the company. Any significant deterioration in the credit profile of the sponsors, delay in getting requisite support from them, or weakening of linkages with the sponsors will also have a bearing on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Implicit parent or group support Rating Methodology for Real Estate Entities
Parent/Group support	Group Company: DLF and GIC: The rating assigned to DMPL factors in the high likelihood of DLF and GIC extending financial support to DMPL, given the strong financial and operational linkages within the Group as well as the presence of a shortfall undertaking provided by the sponsors. The project, being launched under DMPL, also shares the DLF brand and ICRA expects the promoters to extend extraordinary support to DMPL, given the business linkages, strategic importance and the sponsors' reputation sensitivity to default
Consolidation/Standalone	Standalone

About the company

DMPL was incorporated in April 2015 and is a 50:50 JV of Reco Moti Pte Ltd and DLF Home Developers Limited, which is a 100% subsidiary of DLF Limited (rated [ICRA]AA-(Positive)/ A1+). Reco Moti is a 100% subsidiary of GIC (Realty) Pte Ltd. GIC Realty, incorporated as a private company with limited liability under the laws of Singapore, holds real-estate investments made on behalf of the Government of Singapore. DMPL is developing a single project named DLF Mid-Town II. It is a premium residential project located in Moti Nagar, New Delhi with a saleable area of 5.9 msf. The company is constructing the first phase of the project at present, which has a saleable area of 1.9 msf.

Key financial indicators (audited)

DMPL – Standalone	FY2021	FY2022	H1 FY2023
Operating income	-	-	-
PAT	-1.8	-2.0	-1.2
OPBDIT/OI	NM	NM	NM
PAT/OI	NM	NM	NM
Total outside liabilities/Tangible net worth (times)	1.0	1.0	0.9
Total debt/OPBDIT (times)	NM	NM	NM
Interest coverage (times)	NM	NM	NM

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; line by line consolidation done by ICRA; the above financial numbers and ratios reflect the analytical adjustments made by ICRA and may not be comparable with the reported financials; NM: Not meaningful; H1 FY2023 financials are provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current rating (FY2023) Amount rated (Rs. crore)	Amount outstanding as on September 30, 2022 (Rs. crore)	Date & rating in FY2023 January 30, 2023	Chronology of rating history for the past 3 years: Date & rating in FY2022 Oct 22, 2021	Date & rating in FY2021 June 30, 2020	Date & rating in FY2020 -
1	Term loan	Long Term	1,500.0	448.4	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan I**	December 2019	-	March 2026	1,500.0	[ICRA]A (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis: – Not Applicable

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