November 15, 2023

DLF Urban 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 loans	1,050.0	1,050.0	[ICRA]A+(Stable) reaffirmed
Total	**1,050.0**	**1,050.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in DLF Urban Private Limited's (DUPL) healthy collections from One Midtown project and the consequent reduction in debt levels. DUPL has sold 74% of the area as of June 2023, with committed receivables of Rs. 1,949 crore, which provides cash flow visibility. The cash flow adequacy ratio[1] for the project improved to 163% as of June 2023, compared to 111% as of June 2022, indicating limited reliance on incremental debt or promoter contribution going forward. The project's collections are healthy at Rs. 1,011.0 crore in FY2023 (PY: Rs. 132.0 crore) and are expected to grow by 22-24% in FY2024. This along with significant accelerated repayments resulted in a decline in debt to Rs. 392.0 crore as of March 2023 (PY: Rs. 630.0 crore) and further to around Rs. 109.0 crore as of September 2023 against DCCO as per lender of March 2024. DUPL is likely to fully repay the outstanding debt by March 2024 through collections and available liquidity (free cash and bank balances of Rs. 80.8 crore as of June 2023).

The rating continues to factor in the extensive experience and financial strength of its promoters. DUPL 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 Greens Pte Limited (Reco), a 100% subsidiary of Recosia Pte Ltd. (incorporated in Singapore), which is a wholly-owned subsidiary of GIC (Realty) Pte. Ltd[2]. ICRA draws comfort from the demonstrated track record of promoter support. The promoters have infused their entire committed funding for the project at an early stage and have extended shortfall undertaking of up to Rs. 900 crore (independently capped at Rs. 450 crore for the two JV partners), which demonstrates their continuing intent to provide further support as needed. The rating draws strength from the strong market position of the DLF Group, with the One Midtown project being developed under the DLF brand. The favourable location of the project in Moti Nagar, Delhi, with good connectivity and the established position of the already completed DLF Capital Greens project in this micromarket, support its marketability.

The rating, however, is constrained by the moderate execution risk, with the total pending cost of Rs. 908 crore (32% of the budgeted cost) as of June 2023. In the past, the project witnessed delays in execution and approvals, due to Covid-19 related disruptions and revision in guidelines by the local authorities. The company continues to remain exposed to market risks for the unsold area of 0.5 million square feet (msf, 25% of saleable area) with estimated value of Rs. 1,395 crore as of June 2023. The company's low business diversification with future revenues linked to a single project heightens its exposure to marketing risk. Nonetheless, the favourable location of the project and the DLF branding mitigate the risks to some extent. Further, the real estate sector is marked by a highly fragmented market structure because of the presence of a large number of regional

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[1] Cash flow adequacy ratio = Receivables from sold area/(pending cost plus debt outstanding)

[2] 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.

players. In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which exposes DUPL's sales to any downturn in demand.

The Stable outlook on the [ICRA]A+ rating reflects the extensive experience and financial strength of the promoters, the healthy collections, the favourable location of the project in West Delhi and strong brand reputation.

Key rating drivers and their description

Credit strengths

Extensive experience and healthy financial flexibility of promoters – DUPL is a 50:50 JV between DLF Home Developers Limited (DHDL), a wholly-owned subsidiary of DLF Limited {DLF, rated [ICRA]AA- (Positive)/A1+}, and Reco Greens Pte Limited (Reco), a 100% subsidiary of Recosia Pte Ltd. (incorporated in Singapore), which is a wholly-owned subsidiary of GIC (Realty) Pte. Ltd[3]. Both DLF and GIC have established track record of successfully developing and marketing properties. The rating factors in the benefit drawn by DUPL in leveraging its promoters' extensive experience and association with companies, both global and domestic. The promoters have infused their entire committed funding for the project at an early stage and extended a shortfall undertaking of up to Rs. 900 crore (independently capped at Rs. 450 crore for each sponsor) on the project debt. This establishes a track record of promoter support and demonstrates their continued intent to provide further support as needed.

Comfortable cash flow adequacy ratio; reduction in debt levels – DUPL has sold 74% of the area as of June 2023, with committed receivables of Rs. 1,949 crore, which provides cash flow visibility. The cash flow adequacy ratio[4] for the project improved to 163% as of June 2023, compared to 111% as of June 2022, indicating limited reliance on incremental debt or promoter contribution going forward. The project's collections are healthy at Rs. 1,011.0 crore in FY2023 (PY: Rs. 132.0 crore) and are expected to grow by 22-24% in FY2024. This along with significant accelerated repayments resulted in a decline in debt to Rs. 392.0 crore as of March 2023 (PY: Rs. 630.0 crore) and further to around Rs. 109.0 crore as of September 2023 against DCCO as per lender of March 2024. DUPL is likely to fully repay the outstanding debt by March 2024 through collections and available liquidity (free cash and bank balances of Rs. 80.8 crore as of June 2023).

Market position strengthened by use of DLF brand and favourable location of project – The company is developing a premium residential project named One Midtown, spread over 6.8 acres of land with 2.03 msf of saleable area. The DLF branding, the favourable location of the project in Moti Nagar, Delhi, with good connectivity and the established position of the already completed DLF Capital Greens project in this micromarket, support its marketability.

Credit challenges

Exposure to project execution risk – The company is exposed to execution risk for the total pending cost of Rs. 908 crore (32% of the budgeted cost) as of June 2023. In the past, the project has witnessed delays in execution and approvals, due to Covid-19 pandemic-related disruptions and revision in guidelines by the local authorities. Nevertheless, the established track record of the sponsors mitigates the risks.

Exposure to market risk – DUPL continues to remain exposed to market risks for the unsold area of 0.5 msf (25% of saleable area) with estimated value of Rs. 1,395 crore as of June 2023. Nonetheless, the favourable location of the project and the DLF branding mitigate the risks to some extent.

[3] *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.*

[4] *Cash flow adequacy ratio = Receivables from sold area/(pending cost plus debt outstanding)*

Concentration risks associated with a single project and cyclicality in real estate sector – The company's low business diversification with future revenues linked to a single project heightens its exposure to marketing risk. Further, the real estate sector is marked by a highly fragmented market structure because of the presence of a large number of regional players. In addition, being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which exposes DUPL's sales to any downturn in demand.

Liquidity position: Adequate

DUPL's liquidity position is adequate. The cash and equivalents stood at Rs. 80.8 crore, with undrawn bank limits of Rs. 370 crore, out of the total sanctioned facility of Rs. 1,050 crore, as on June 30, 2023. Further, the company has cash flow adequacy ratio of 163%. ICRA expects the collections to remain adequate to meet its project cost and debt servicing obligations.

Rating sensitivities

Positive factors – An upgrade in the rating is unlikely in the near term. Nevertheless, a significant improvement in the company's sales and collections enabling steady execution while maintaining healthy leverage position will be a credit positive.

Negative factors – Pressure on new bookings and collections resulting in significant deterioration in the cash flow adequacy ratio, leverage or liquidity position may put downward pressure on the rating. Any deterioration in the credit profile of the sponsors, significant increase in debt for sponsor payouts, or changes in linkage with the sponsors will also have a bearing on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Real Estate Entities Corporate Credit Rating Methodology
Parent/Group support	Group Company: DLF and Reco Greens Pte Limited The rating assigned to DUPL factors in the high likelihood of the DLF and Reco Greens Pte Limited, extending financial support to DUPL, 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 DUPL shares the DLF brand, which in ICRA's opinion would persuade DLF to provide financial support to DUPL to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	The rating is based on the consolidated financial statements of the rated entity

About the company

DUPL was incorporated in April 2015. The company is a 50:50 JV of Reco Green Pte Ltd and DLF Home Developers Limited (DHDL), which is a 100% subsidiary of DLF Limited (rated [ICRA]AA- (Positive)/A1+). Reco Greens is a 100% subsidiary of Recosia Pte Ltd. (incorporated in Singapore), which is a wholly-owned 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.

DUPL is developing a single project named One Midtown. The project is a premium residential project located in Moti Nagar, New Delhi on a plot of 6.8 acres with a saleable area of 2.03 msf.

Key financial indicators (audited)

DUPL standalone	FY2022	FY2023
Operating income	0.00	0.00
PAT	-26.43	-15.84
OPBDIT/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	4.47	8.25
Total debt/OPBDIT (times)	Not meaningful	Not meaningful
Interest coverage (times)	Not meaningful	Not meaningful

Source: Company financials; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; all ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of June 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 15, 2023	Sep 23, 2022	Nov 30, 2021	Sep 28, 2020
1	**Term loans**	Long-Term	1,050.00	284.41	**[ICRA]A+(Stable)**	**[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	Long-term – Fund-based – Term loan 1	September 2017	-	October 2025	675.0	[ICRA]A+ (Stable)
NA	Long-term – Fund-based – Term loan 2	September 2017	-	October 2025	375.0	[ICRA]A+ (Stable)

Source: Company

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

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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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