March 28, 2024

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	1500.0	1500.0	[ICRA]A (Stable); reaffirmed
Total	**1500.0**	**1500.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for DLF Midtown Private Limited (DMPL) factors in the favourable location of the project, along with the infusion of committed funding by the promoters. The rating considers the strong market position of DLF Limited, with the premium residential project DLF MidTown 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 for the DLF One Mid Town (being developed under DLF Urban Private Limited[1] (DUPL), a sister concern of DMPL, in the same micromarket), provide comfort. DMPL has incurred the land and approval costs worth Rs. 1,762 crore and has pending cost of Rs. 1,623 crore as of December 2023 (excluding payout to promoters) for the first phase of the project. The company has undrawn debt of Rs. 905 crore, which moderates the project funding risks to an extent, although ICRA notes that reliance on customer advances will remain high for project completion. Further, the cashflow from operations are expected to remain weak in the initial years on account of higher construction spend, and consequently high leverage. The same is anticipated to improve post launch of the project in FY2026. 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 factors in the extensive experience and financial strength of its promoters along with strong financial flexibility. 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 (Stable)/ [ICRA] A1+}, and Reco Moti Pte Limited (Reco), a wholly-owned subsidiary of the Government of Singapore Investment Corporation (GIC). The strong parentage of DMPL commands strong financial flexibility. 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 is, however, constrained by the approval and execution risks arising out of the initial stages of construction of the project. Out of the total outlay of Rs. 3,803.9 crore (excluding the payout to sponsors), 57% of the project cost has been incurred till December 2023. The cost incurred primarily consists of land and approval cost, while construction is at an early stage with 15% of the construction cost incurred till December 2023. The DCCO for the project is September 2024 with the debt repayments starting from October 2024 onwards. However, the DCCO is proposed to be extended with the approval of the lender, along with corresponding deferment in the repayment schedule. Further, the project is exposed to high market risk as DMPL is yet to launch the project for sales, 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 as the company is undertaking only one project. In addition, being a cyclical industry, real estate sector is highly dependent on macro-economic factors, which exposes its sales to any downturn in demand.

[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 long-term rating reflects ICRA's expectation that the company will see healthy sales after project launch, supported by the strong brand reputation of DLF, favourable project location and healthy expected project returns.

Key rating drivers and their description

Credit strengths

Market position strengthened by use of DLF brand and favourable location of 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. It 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 for the DLF One Mid Town being developed under DUPL, a sister concern of DMPL in the same micromarket, provide comfort.

Extensive experience and financial strength of promoters; strong financial flexibility – DMPL is a 50:50 JV of DHDL and GIC, Singapore. DHDL is a subsidiary of DLF Limited, which has an established track record of successfully developing and marketing properties. The strong parentage of DMPL commands robust financial flexibility. 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 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. 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, execution and market risks – The company remains exposed to high approval and execution risks arising out of the initial stages of construction of the project. Out of the total outlay of Rs. 3,803.9 crore (excluding the payout to sponsors), 57% of the project cost has been incurred till December 2023. The cost incurred primarily consists of land and approval cost, while construction is at an early stage with 15% of the construction cost incurred till December 2023. The DCCO for the project is September 2024 with the debt repayments starting from October 2024 onwards. However, the DCCO is proposed to be extended with the approval of the lender, along with corresponding deferment in the repayment schedule. Further, the project is exposed to high market risk as the company is yet to launch the project for sales, given the large inventory to be sold and high-ticket size of the units owing to their luxurious specifications.

Concentration risk associated with single project and exposure to cyclicality in real estate business – 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 company's cash flows. However, 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. The residential real estate sector, being cyclical in nature, is highly dependent on macro-economic factors, which exposes its sales to any downturn in demand and competition within the region from various other developers.

Liquidity position: Adequate

The company's liquidity position is adequate. It has undrawn lines of Rs. 905.2 crore as on December 31, 2023, 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 in the project post the market launch, and the resultant improvement in cash flow visibility and cash flows adequacy ratio will be a positive trigger.

Negative factors – Negative pressure on the rating could arise if there are any cost and time overruns, thereby weakening the debt protection metrics of the company. Any significant deterioration in the credit profile of the sponsors, delay in getting requisite support from the sponsors, or changes in linkage with the sponsors will also have a bearing on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty – Residential/Retail/Commercial
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. 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(Stable)/ 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	FY2022	FY2023
Operating income	0.0	0.0
PAT	-2.0	-2.1
OPBDIT/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	1.0	1.0
Total debt/OPBDIT (times)	-631.9	-614.0
Interest coverage (times)	NM	NM

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, interest coverage ratio is calculated on OPBIDT.
Source: Company annual reports, ICRA Research; NM: Not meaningful

Status of non-cooperation with previous CRA – NA

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 (Rs. crore) as on December 31, 2023	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				March 28, 2024	January 30, 2023	Oct 22, 2021	June 03, 2020
1 Term loan	Long term	1500.0	594.8	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)

Complexity level of the rated instrument

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**	December 2019	10.0%	March 2026	1500.0	[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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