September 28, 2020

DLF Urban Private Limited: Rating reaffirmed

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based Term Loan	1,050.0	1,050.0	[ICRA]A (Stable); reaffirmed
Total	**1,050.0**	**1,050.0**	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the extensive experience and financial strength of DLF Urban Private Limited's (DUPL) promoters, with DUPL being a 50:50 joint venture (JV) between DLF Home Developers Limited (DHDL), a wholly-owned subsidiary of DLF Limited {DLF, rated [ICRA]A+(stable)/A1}, and Reco Greens Pte Limited (Reco), a wholly-owned subsidiary of GIC Realty (part of the Government of Singapore). DUPL is undertaking a premium residential project by the name of "Park Place" (erstwhile Capital Greens IV) in Motinagar, Delhi. The promoters infused their entire committed funding for the project at an early stage and have also extended a shortfall undertaking of up to Rs. 900 crore (severally capped at Rs. 450 crore for each sponsor) on the project debt, which establishes a track record of promoter support, and demonstrates their continued intent to provide further support to the project as needed. The rating also draws strength from the strong market position of the DLF group, with the Park Place 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 micro-market, further supports the market position. Also, the debt tie-up is in place, which, together with infusion of promoter funds, moderates the exposure to funding risks to an extent, although ICRA notes that reliance on customer advances remains high.

The rating strengths, however, are offset by risks arising out of the early stage of project development. The project, having a total outlay of ~Rs. 3,300 crore (revised from Rs. 3,600 crore earlier on account of streamlining of value engineering costs), is at a nascent stage at present. While cost of around Rs. 1100 crore had been incurred till June, 2020, taking the financial progress to around 34%, up from 26% till March, 2019, the same primarily comprised land & approval costs and accrued sponsor pay-outs, with project construction remaining at an early stage. Delays in project execution over the past year due to NGT ban on construction and Covid-19 related disruptions have further exacerbated these risks, with principal repayment now expected to commence significantly prior to the revised project completion timeline. The project is now expected to be completed in H2 FY2023, as against the earlier estimate of March, 2022, and debt repayment is currently scheduled to commence from October, 2021. ICRA, however, continues to draw comfort from the demonstrated track record of promoter support, as well as their proven refinancing ability, which would aid in meeting cash gaps, if any. ICRA also notes that the planned sales launch of the project has been expedited to Q1 FY2022, post completion of 1-2 floors, as against the earlier planned launch post completion of the civil structure. This is expected to result in quicker generation of project collections, which would reduce the dependence on promoter funds/refinancing to some extent, although the extent of fund generation would be subject to project marketability. Market risks for the project remain considerable, given the high ticket size of the units, owing to its luxurious specifications, and untested market demand for the project, since sales launch is still pending.

Going forward, the ability of the company to execute the project in a timely manner within the given budget, and achieve adequate sales and collections, will remain a key rating monitorable.

The Stable outlook reflects ICRA's belief that DUPL will continue to benefit from the extensive experience and operational track record of its promoters in the real-estate sector. The high financial flexibility available with the promoters further supports the rating and outlook.

Key rating drivers

Credit strengths

Extensive experience and financial strength of DUPL's promoters – DUPL is a 50:50 JV of DLF Limited and GIC, Singapore. Both DLF and GIC have established track record of successfully developing and marketing properties. As such, 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 have also extended a shortfall undertaking of up to Rs. 900 crore (severally capped at Rs. 450 crore for each sponsor) on the project debt, which establishes a track record of promoter support, and demonstrates their continued intent to provide further support to the project as needed.

Market position strengthened by use of DLF brand and favourable location of the project – The company is developing a premium residential project named Park Place (erstwhile Capital Greens IV), spread over 6.8 acres of land with 2.1 million sq. ft. (revised from 1.9 million sq. ft. earlier) of saleable area. The sharing of the DLF brand name, together with 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 micro-market, further supports the market position.

Moderate funding risk – The project – Park Place – has a total outlay of Rs. ~Rs. 3,300 crore (revised from Rs. 3,600 crore on account of streamlining of value engineering costs), which is proposed to be funded through a mix of promoters' contribution of Rs. 564 crore, debt of Rs. 1,050 crore and the balance through customer advances. The promoters have already infused their share of contribution as on date. Further, debt of Rs. 1,050 crore has been tied-up, which further moderates the exposure to funding risk, although ICRA notes that the reliance on customer advances remains high. The favourable structure of the debt provides additional comfort, with requirement for mandatory prepayment from project surplus, presence of an interest service reserve account equivalent to 1.5 months interest obligation, and subordination of promoter funds and pay-outs.

Credit challenges

Nascent stage of development and disruptions in execution exposes the project to construction risks and possible delay in DCCO –While project cost of around Rs. 1100 crore had been incurred till June, 2020, taking the financial progress to around 34%, up from 26% till March, 2019, the same primarily comprised land and approval costs and accrued sponsor pay-outs, with project construction remaining at an early stage. Delays in project execution over the past year due to NGT ban on construction and Covid-19 related disruptions have further exacerbated these risks, with principal repayment now expected to commence significantly prior to the revised project completion timeline. The project is now expected to be completed in H2 FY2023, as against the earlier estimate of March, 2022, and debt repayment is currently scheduled to commence from October, 2021. ICRA, however, continues to draw comfort from the demonstrated track record of promoter support, as well as their proven refinancing ability, which would aid in meeting cash gaps, if any.

Exposure to marketing risk remains high – ICRA notes that the planned sales launch of the project has been expedited to Q1 FY2022, post completion of 1-2 floors, as against the earlier planned launch post completion of the civil structure. However, market risks for the project remain considerable, given the high ticket size of the units, owing to its luxurious specifications, and untested market demand for the project, since sales launch is still pending. Achievement of timely sales and collections going forward would remain critical for reducing dependence on promoter funds and servicing of debt obligations from operational cash flows.

Concentration risks associated with a single project – The company's low business diversification with future revenues likely to be accrued from a single project, heightens its exposure to marketing risk. Any delay in execution or poor response to the project may have an adverse impact on the cash flows of the company.

Liquidity position: Adequate

With around Rs. 2,175 crore (as of Jun-20), to be expensed on the under-construction project going forward, and sales launch expected to commence in FY2022, the near-term liquidity of the company will remain dependent on undrawn lines of Rs. 650 crore, collection from sales and infusion of promoter support if required. ICRA continues to draw comfort from the demonstrated track record of promoter support, as well as the high financial flexibility and refinancing ability of the promoters. Achievement of timely sales and collections going forward would remain critical for reducing dependence on promoter funds and servicing of debt obligations from operational cash flows.

Rating sensitivities

Positive triggers – Healthy sales and collections post market launch and completion of the project within the budgeted project cost and timeline would be credit positives.

Negative triggers – Negative pressure on the rating could arise if there are any cost and time overruns or if sales are lower than expected due to delays in sales launch or other factors, thereby weakening the financial risk profile of the company and leading to additional debt being undertaken. Any change in the credit profile of the sponsors or in the operational 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 Methodology for Real Estate Entities
Parent/Group Support	Group Company: DLF and GIC The rating assigned to DUPL factors in the high likelihood of the DLF and GIC, extending financial support to DUPL, given the strong financial and operational linkages within the group, as well as the presence of a shortfall undertaking to the tune of Rs. 900 crore provided by the sponsors. The project being launched under DUPL also 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	Standalone financial statements

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 rated [ICRA]A+(stable)/A1). Reco Greens is a 100% subsidiary of Recosia Pte Ltd. (incorporated in Singapore), which is in turn, 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 Government of Singapore.

DUPL is developing a single project by the name of "Park Place" (erstwhile Capital Greens IV). 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 2.1 million sq ft.

Key financial indicators (audited) –

	FY2019	FY2020
Operating Income (Rs. crore)	-	-
PAT (Rs. crore)	-0.34	-0.77
OPBDIT/OI (%)	-	-
RoCE (%)	-0.04%	--0.08%
Total Outside Liabilities/Tangible Net Worth (times)	1.65	2.38
Total Debt/OPBDIT (times)	-1,544.80	-967.95
Interest Coverage (times)	-486.14	-
DSCR	-486.14	-

Note: No revenues have been reported in the financial statements yet

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 28-Sep-20	Date & Rating in FY2020 08-Jul-19	Date & Rating in FY2019 05-Apr-18	Date & Rating in FY2018 -
1	Term Loans	Long Term	1050.0	396.0	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-

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	September 2017	NA	September 2023	675.0	[ICRA]A (Stable)
NA	Term Loan 2	September 2017	NA	September 2023	375.0	[ICRA]A (Stable)

Source: DUPL

Annexure-2: 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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