

December 14, 2017

DLF Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Commercial Paper	1000.0	[ICRA]A1; Assigned
NCD	3660.0	[ICRA]A(Stable); Outstanding
Term Loans	3563.0	[ICRA]A(Stable); Outstanding
Fund Based Limits	2085.0	[ICRA]A(Stable); Outstanding
Non-fund Based Limits	1150.0	[ICRA]A(Stable); Outstanding

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a short-term rating of [ICRA]A1(pronounced ICRA A one)¹to the Rs. 1000.0-crore²commercial paper programme of DLF Limited (DLF). Further, ICRA has outstanding rating of [ICRA]A (Stable) for Rs. 6,798-crore bank facilities and Rs. 3,660³ -crore NCD programme, at present.

Rationale

The assigned rating draws strength from the noteworthy progress achieved by DLF towards its debt reduction initiatives. On September 29, 2017, the public shareholders of DLF approved the transaction wherein the promoters of DLF would sell 33.34% equity stake in the groups rental arm viz. DLF Cyber City Developers Limited (DCCDL). The balance equity of 66.67% in DCCDL shall be held by DLF. The promoters of DLF, who hold compulsorily convertible preference shares (CCPS) issued by DCCDL, will receive Rs. 11,900 crore through a series of steps comprising secondary sale of shares to GIC (through its associates) and buy back of CCPS by DCCDL. ICRA notes that culmination of the deal in the near term and utilisation of the funds for reduction of debt will facilitate in moderation of pressure on DLF's cash flows and help achieve the intended material reduction in its debt. Post its board meeting on December 01, 2017, the company also announced that the promoters will be infusing Rs. 11,250 crore over the near to medium term in DLF which coupled with the plausible Qualified Institution Placement (QIP) in the near term will facilitate in material reduction of the elevated debt levels.

The rating continues to derive comfort from the lease rental portfolio of DLF, which lends stability to the cash flows of the Group. The rating also favourably factors in DLF's established market position in the domestic real estate sector as well as its diversified, well located and low-cost fully paid land bank. The rating strengths are offset by high debt levels, resulting in moderate debt-coverage indicators for the company. ICRA believes with the culmination of the deal and infusion of funds in DLF by the promoters, the debt will reduce significantly and will continue to be a key monitorable. Further, the rating remains constrained by sluggish demand in the real estate sector. This poses a challenge for the company in maintaining its sales, resulting in poor cash flow visibility for real estate development business.

¹For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

²100 lakh = 1 crore = 10 million

³Rs. 2500 crore of NCD are unplaced

Going forward, significant reduction in DLF's debt levels in the near term through the proposed CCPS transaction and subsequent planned equity raising initiative and improvement in the cash flows from its core real estate development operations would be amongst the key rating sensitivity factors. Moreover, ICRA will continue to assess the limitation on comingling of cash flows from rental division and real estate division post the culmination of the deal and its consequent impact on the company's standalone credit profile.

Key rating drivers

Credit strengths

- **Healthy lease income portfolio provides stability to DLF's otherwise volatile real estate cash flows** - Lease income from the commercial and retail segment form the annuity business of the company. The leased area increased from 30.47 million sq ft at the end of FY2017 to 31.05 million sq ft at the end of H1 FY2018. Apart from supporting the otherwise volatile real estate revenues of the company, it also provides a stable stream of cash flows.
- **Noteworthy progress achieved towards debt reduction programme:** Post finalisation of transaction with GIC, DLF, on December 01, 2017, announced that the promoters of DLF will be infusing Rs. 11,250 crore over the near to medium term in DLF as equity or convertible instruments such as CCD's and warrants. This along with the plausible Qualified Institution Placement (QIP) in the near term will facilitate in material reduction of the elevated debt levels.
- **Established market position**—DLF Limited is an established player in the market with a long track record. DLF's market position is reflected by its presence across residential, commercial and retail segments as well as across key micro-markets in the country.
- **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, thus, providing ease of monetisation. Further, the land bank is largely paid up and the remaining committed payments are evenly spread over the medium term.

Credit weaknesses

- **Elevated debt levels and moderate debt coverage indicators** - Debt levels continue to remain high as on September 30, 2017 resulting in relatively moderate debt protection indicators and exposes the company to refinancing risk given the debt repayment in the medium term.
- **Demand for real estate remains poor:** Poor visibility of real estate development cash flows on account of sluggish demand for real estate. It exposes the company to high marketing risk.
- **Significant contingent liabilities and pending litigations can put its cash flows under pressure in case of an adverse decision** - The Company has significant contingent liabilities mainly on account of income tax, service tax etc related matters and the penalty imposed by Competition Commission of India (CCI) in August 2011 for allegedly following unfair practices. Nonetheless, the company has deposited some money in certain cases which will provide liquidity support in case of any adverse judgment.

Analytical approach: ICRA continues to take a consolidated view of DLF and its subsidiaries given the strong operational, financial and management linkages among various entities.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[ICRA Rating Methodology: 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 sq.ft. It is credited for developing many well known urban colonies in Delhi, including South Extension, Greater Kailash, Kailash Colony and HauzKhas as well as one of Asia's largest private townships "DLF City" in Gurgaon, Haryana. DLF is currently developing 19mn. sq.ft. across the country. Some of its key subsidiaries based on subscribed equity capital are DLF Assets Limited (rated [ICRA]A (SO) (Stable)) and DLF Cyber City Developers Limited (rated [ICRA]A (SO) (Stable)).

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	9961.10	8246.00
PAT (Rs. crore)	305.10	708.00
OPBDIT/ OI (%)	40.48%	41.94%
RoCE (%)	-	7.89%
Total Debt/ TNW (times)	1.04	1.18
Total Debt/ OPBDIT (times)	6.26	8.44
Interest coverage (times)	1.50	1.16
NWC/ OI (%)	138%	229%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years							
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month- year & Rating in FY2017				Month-year & Rating in FY2016	Month- year & Rating in FY2015		
					March 2017	December 2016	July 2016	April 2016		April 2015	October 2014	April 2014
				Dec -17								
1	Commercial Paper	Short Term	1000	[ICRA] A1	-	-	-	-	-	-	-	-
2	Term Loans	Long Term	3563	[ICRA] A (Stable)	[ICRA]A (Stable)	[ICRA] A (Stable)	[ICRA] A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA] A@	[ICRA] A (Stable)	
3	Non-Fund Based Limits	Long Term	1150	[ICRA] A (Stable)	[ICRA]A (Stable)	[ICRA] A (Stable)	[ICRA] A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA] A@	[ICRA] A (Stable)	
4	Fund Based Limits	Long Term	2085	[ICRA] A (Stable)	[ICRA]A (Stable)	[ICRA] A (Stable)	[ICRA] A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA] A@	[ICRA] A (Stable)	
5	NCD	Long Term	3660	[ICRA] A (Stable)	[ICRA]A (Stable)	[ICRA] A (Stable)	[ICRA] A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA] A@	[ICRA] A (Stable)	
				@: Rating watch with negative implication								

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

Name of the instrument	Date of issuance	Coupon rate	Maturity Date / Month	Size of the issue (Rs. Cr)	Current Rating and Outlook
Commercial Paper				1000	[ICRA]A1
Term Loan				3563	
Term Loan 1			April 2017	3	[ICRA]A (Stable)
Term Loan 2			November	255	[ICRA]A (Stable)
Term Loan 3			December	292	[ICRA]A (Stable)
Term Loan 4			March 2019	120	[ICRA]A (Stable)
Term Loan 5			September	229	[ICRA]A (Stable)
Term Loan 6			October 2020	555	[ICRA]A (Stable)
Term Loan 7			March 2020	150	[ICRA]A (Stable)
Term Loan 8			July 2021	1102	[ICRA]A (Stable)
Term Loan 9			July 2021	559	[ICRA]A (Stable)
Term Loan 10			March 2025	238	[ICRA]A (Stable)
Term Loan 11			March 2025	60	[ICRA]A (Stable)
Fund Based Limits				2085	
- Overdraft Limit	-	-	Revolving	605.0	[ICRA]A (Stable)
- Overdraft Limit/	-	-	Revolving	1480.0	[ICRA]A (Stable)
Non-Fund Based				1150.0	
- Bank Guarantee	-	-	Revolving	950.0	[ICRA]A (Stable)
- Letter of Credit	-	-	Revolving	200.0	[ICRA]A (Stable)
NCD Tranche					
NCD-I	30-Apr-13	12.50%	30-Apr-18	125	[ICRA]A (Stable)
NCD-II	11-Aug-15	12.25%	11-Aug-18	250	[ICRA]A (Stable)
NCD-III	11-Aug-15	12.25%	11-Aug-19	250	[ICRA]A (Stable)
NCD-IV	11-Aug-15	12.25%	11-Aug-20	250	[ICRA]A (Stable)
NCD-V	24-Aug-15	12.25%	10-Aug-18	95	[ICRA]A (Stable)
NCD-VI	24-Aug-15	12.25%	9-Aug-19	95	[ICRA]A (Stable)
NCD-VII	24-Aug-15	12.25%	10-Aug-20	95	[ICRA]A (Stable)
NCD (not placed)	-	-	-	2500	[ICRA]A (Stable)

Source: DLF

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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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