Ratings

CRISIL
An S&P Global Company

Rating Rationale

January 18, 2018 | Mumbai

DLF Limited

Ratings upgraded to 'CRISIL A+/Stable/CRISIL A1', removed from 'Watch Developing'

Rating Action

Total Bank Loan Facilities Rated	**Rs.5612 Crore**
Long Term Rating	**CRISIL A+/Stable (Upgraded from 'CRISIL A'; Removed from 'Rating Watch with Developing Implications')**
Short Term Rating	**CRISIL A1 (Upgraded from 'CRISIL A2+'; Removed from 'Rating Watch with Developing Implications')**

Rs.5000 Crore Non Convertible Debentures	**CRISIL A+/Stable (Upgraded from 'CRISIL A'; Removed from 'Rating Watch with Developing Implications')**
Rs.3000 Crore Short Term Debt	**CRISIL A1 (Upgraded from 'CRISIL A2+'; Removed from 'Rating Watch with Developing Implications')**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale
CRISIL has upgraded its ratings on the debt instruments and bank facilities of DLF Limited (DLF) to **'CRISIL A+/CRISIL A1'** from 'CRISIL A/CRISIL A2+/Watch Developing', while removing the ratings from 'Rating Watch with Developing Implications'. CRISIL has assigned its **'Stable'** outlook to the long-term instruments.

CRISIL had placed the ratings on watch on September 5, 2017, following DLF's announcement of an agreement with GIC (sovereign fund of the Government of Singapore) under which GIC was to acquire 33.34% stake in DLF Cyber City Developers Ltd (DCCDL; DLF's subsidiary). Funds raised by promoters through this investment were expected to be infused in DLF, leading to debt reduction.

On December 29, 2017, the transaction was completed. Consequently, the promoters received around Rs 10,550 crore - Rs 8900 crore from GIC for the stake sale in DCCDL and Rs 1650 crore from DCCDL towards buyback of certain compulsory convertible preference shares (CCPS). Subsequently, promoters infused Rs 9000 crore[1] in DLF. Of this, around Rs 6600 crore has already been used to repay debt, and the remaining has been kept as cash.

The upgrade reflects improvement in DLF's financial risk profile due to substantial reduction in debt. DLF plans to further reduce debt from the proceeds of an aggregate issuance of up to 17.30 crore equity shares by way of a public issue or a private placement in the near term, and from receipt of the balance 75% payment of warrants[2] issued to the promoters. This, along with gradual sales of finished inventory of around Rs 15,000 crore, could further improve financial risk profile.

The ratings continue to reflect DLF's strong business risk profile, backed by robust market position and sizeable portfolio of rental assets, and improving financial risk profile due to significant deleveraging of balance sheet and healthy financial flexibility. These strengths are partially offset by sluggish sales in the residential segment, and susceptibility to risks and cyclicality inherent in the real estate sector.

Analytical Approach
CRISIL has combined the business and financial risk profiles of DLF and its subsidiaries, including DLF Emporio Ltd ('CRISIL AA (SO)/Stable') and DLF Promenade Ltd ('CRISIL AA (SO)/Stable'), joint ventures, and associates, because of their strong operational and financial linkages. CRISIL has continued consolidation of DCCDL despite sale of 33.34% stake to GIC as CRISIL believes DLF continues to hold majority stake and board representation, and has strong economic incentive in DCCDL.

Key Rating Drivers & Detailed Description
Strengths
*** Strong market position, large low-cost land bank, and economies of scale**
DLF has an established track record in real estate projects across segments and regions in India. It is a well-recognised brand with the most extensive track record among private real estate developers in the country. Market position is also

underpinned by large, low-cost, land bank of over 200 million square feet (msqft) in prime locations, which supports profitability of projects and provides a significant competitive advantage over other real estate developers.

*** Sizeable and healthy portfolio of rental assets**
DLF had rental asset portfolio of 31.4 msqft as on September 30, 2017, with majority of it being under DCCDL. The rental income increased 87% from Rs 1550 crore in fiscal 2012 to Rs 2900 crore in fiscal 2017. With occupancy of about 93%, the company will continue to generate stable cash flow from these rental assets. Besides, it has annuity income in the form of facilities management, and utilities.

*** Improving financial risk profile due to significant deleveraging and healthy financial flexibility**
DLF had gross debt of Rs 29,047 crore as on September 30, 2017. Fund infusion by the promoters resulted in debt reduction by around Rs 6600 crore so far in fiscal 2018. With additional proceeds from the offering of equity shares and the balance payment of 75% against warrants issued to promoters, the debt is expected to reduce further by fiscal 2019. Sustenance of reduced debt and pick-up in sales are key monitorables.

Financial flexibility is supported by a track record of raising funds from national and international investors, banks, and financial institutions, and from portfolio of leased assets and large land bank.

Weakness
*** Exposure to inherent risks and cyclicality in the real estate industry**
The real estate segment is cyclical and volatile, resulting in fluctuations in cash inflow on account of volatility in realisations and sales. Cash outflow for projects and debt obligation are relatively fixed, which can lead to substantial cash flow mismatch. Pick-up in business environment will be key to increased sales booking of its finished inventory over the medium term.

*** Sluggish sales in the residential segment**
The residential real estate segment is experiencing sluggish sales. DLF's new sales in the residential segment remained sluggish at Rs (180) crore over the six months ended September 30, 2017, against Rs 1160 crore and Rs 3150 crore in fiscals 2017 and 2016, respectively. However, DLF is well-positioned to capture the uptick in demand with its finished inventory of about Rs 15,000 crore. Timely sale of inventory will improve operating cash flow.

Outlook: Stable
CRISIL believes DLF's credit risk profile will improve over the medium term with significant deleveraging of its balance sheet from the ongoing debt reduction.

Upside scenario
* Further deleveraging from proceeds of the equity offering and remaining payment of warrants, and sustenance of capital structure
* Faster sale of finished inventory, thereby improving operating cash flow

Downside scenario
* Lower-than-expected sale of finished inventory, resulting in increased debt, leading to adverse impact on financial performance

About the Company
DLF is one of the oldest and largest real estate companies in India. It has a diverse asset portfolio across the real estate segment and is expanding presence across the country. It has experience in developing real estate projects across business and customer segments. As on September 30, 2017, it had 15 msqft of residential and 4.12 msqft of retail and commercial properties under construction, and a total leased asset portfolio of 31.4 msqft.

For the six months ended September 30, 2017, net profit was Rs 125 crore on net sales of Rs 3635 crore (Rs 468 crore and Rs 3938 crore, respectively, for the corresponding period of the previous fiscal).

[1] *Rs 8250 crore against compulsory convertible debentures and Rs 750 crore against 25% payment for warrants.*
[2] *25% payment received in December 2017. Remaining 75% (Rs 2250 crore) expected by fiscal 2019*

Key Financial Indicators

As on/for the period ended March 31		2017	2016
Revenue	Rs crore	8,221	9,926
Profit after tax (PAT)	Rs crore	708	305
PAT margins	%	8.6%	3.1%
Adjusted debt/Adjusted networth	Times	1.18	1.06
Interest coverage	Times	1.39	1.74

Any other information: Not applicable

Note on complexity levels of the rated instrument:
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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs Cr)	Rating assigned with outlook
NA^	Debentures^	NA	NA	NA	5000	CRISIL A+/Stable
NA	Short-term debt	NA	NA	7-365 Days	3000	CRISIL A1
NA	Term loan	NA	NA	Aug-19	498	CRISIL A+/Stable
NA	Term loan	NA	NA	Jul-21	1752	CRISIL A+/Stable
NA	Overdraft	NA	NA	NA	415	CRISIL A+/Stable
NA	Short-term loan	NA	NA	NA	1445	CRISIL A1
NA	Bank guarantee	NA	NA	NA	850	CRISIL A1
NA	Letter of credit	NA	NA	NA	652	CRISIL A1

^Yet to be issued

Annexure - Rating History for last 3 Years

	Current			2018 (History)		2017		2016		2015		Start of 2015
Instrument	**Type**	**Quantum**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Non Convertible Debentures	LT	5000	CRISIL A+/Stable		No Rating Change	05-09-17	CRISIL A/Watch Developing	25-05-16	CRISIL A/Stable	01-04-15	CRISIL A/Negative	CRISIL A/Watch Negative
Short Term Debt	ST	3000	CRISIL A1		No Rating Change	05-09-17	CRISIL A2+/Watch Developing		No Rating Change	01-04-15	CRISIL A2+	CRISIL A2+/Watch Negative
Fund-based Bank Facilities	LT/ST	4110	CRISIL A+/Stable/ CRISIL A1		No Rating Change	05-09-17	CRISIL A/Watch Developing/ CRISIL A2+/Watch Developing	25-05-16	CRISIL A/Stable/ CRISIL A2+	01-04-15	CRISIL A/Negative/ CRISIL A2+	CRISIL A/Watch Negative/ CRISIL A2+/Watch Negative
Non Fund-based Bank Facilities	LT/ST	1502	CRISIL A1		No Rating Change	05-09-17	CRISIL A2+/Watch Developing		No Rating Change	01-04-15	CRISIL A2+	CRISIL A2+/Watch Negative

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Bank Guarantee	**850**	**CRISIL A1**	**Bank Guarantee**	**850**	**CRISIL A2+/Watch Developing**
Letter of Credit	**652**	**CRISIL A1**	**Letter of Credit**	**652**	**CRISIL A2+/Watch Developing**
Overdraft	**415**	**CRISIL A+/Stable**	**Overdraft**	**415**	**CRISIL A/Watch Developing**
Short Term Loan	**1445**	**CRISIL A1**	**Short Term Loan**	**1445**	**CRISIL A2+/Watch Developing**
Term Loan	**2250**	**CRISIL A+/Stable**	**Term Loan**	**2250**	**CRISIL A/Watch Developing**
Total	**5612**	**--**	**Total**	**5612**	**--**

Links to related criteria

CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufaturing and service sector companies
CRISILs Criteria for rating short term debt

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