Rating Rationale

December 27, 2012
Mumbai

DLF Limited

Ratings Reaffirmed

Total Bank Loan Facilities Rated	**Rs.157.30 Billion**
Long-Term Rating	**CRISIL A/Negative (Reaffirmed)**
Short-Term Rating	**CRISIL A2+ (Reaffirmed)**

(Refer to Annexure 1 for facility details)

Rs.50 Billion Non-Convertible Debentures	**CRISIL A/Negative (Reaffirmed)**
Rs.30 Billion Short-Term Debt	**CRISIL A2+ (Reaffirmed)**

CRISIL's ratings on the bank facilities and debt programmes of DLF Ltd (DLF) continue to reflect DLF's healthy business risk profile and financial flexibility. These rating strengths are partially offset by the company's high debt levels resulting in weak debt protection metrics, and susceptibility to risks and cyclicality inherent in the real estate sector.

For arriving at the ratings, CRISIL has combined the business and financial risk profiles of DLF and its subsidiaries, joint ventures, and associates, because of their strong operational linkages.

DLF's business risk profile is marked by strong market position, low-cost land bank, and economies of scale. The company's strong market position is reflected in its established track record in real estate projects across segments and regions in India. DLF has so far sold 53 million square feet (sq ft) of residential and commercial properties, and also has a total leased asset portfolio of 23 million sq ft. DLF has the most extensive track record of real estate development amongst any private developer in India. The company's market position is also underpinned by it large low-cost land bank of around 340 million sq ft in prime locations; the same supports the profitability of its projects, providing it with a significant competitive advantage over other real estate developers. After the amalgamation of DLF Assets Ltd (DAL), DLF's lease rental income has significantly increased lending stability to its otherwise cyclical business. DLF's lease rental income increased to Rs.8 billion for the six months ended September 30, 2012 from Rs.7.57 billion for the corresponding period of the previous year. For the full year 2011-12 (refers to financial year, April 1 to March 31), DLF's lease rental income was Rs.15.5 billion. CRISIL believes that DLF's lease rental income will gradually increase over the medium term, driven by incremental leases in commercial properties, and renewal of existing leases at relatively higher rates.

CRISIL also believes that DLF enjoys healthy financial flexibility, with a track record of raising funds from national and international investors. The company also has a policy of maintaining liquidity at any given point in time to adequately support the repayment of its debt and interest due for the next six months; DLF had cash and cash equivalents of Rs.13.8 billion and current investments of Rs.2.1 billion as on September 30, 2012.

DLF's debt levels remain high. As on September 30, 2012, DLF's gross reported debt was Rs.256.5 billion, up from Rs.250.7 billion as on March 31, 2012. The increase in borrowings is a result of slower new project launches, investment in strategic land acquisition, and delay in recovery from non-core asset divestments. CRISIL, however, believes that DLF's debt will reduce over the medium term, driven by divestments of large non-core assets of the company. With the proceeds from NTC mills land sale and the recently announced sale of Aman Resorts, DLF is expected to gain momentum on the debt reduction front. CRISIL believes that DLF will significantly reduce its gross debt levels to around Rs.210 billion by March 31, 2013 supported by divestments. The company's ability to unlock value from non-core assets and consequently reduce its debt levels remains a key rating sensitivity factor.

Furthermore, the weak business environment will continue to dampen the outlook for the real estate sector over the near term. The other risk factors include cyclicality in the real estate sector in India, marked by volatile prices, and a highly fragmented market structure.

CRISIL believes that while the weak business environment along with DLF's high interest costs will continue to impact the company's operating cash flows over the medium term, the divestments and consequent debt reduction can help improve the free operating cash flows and the debt protection metrics over the medium term.

Outlook: Negative

CRISIL believes that DLF's operating cash flows will remain average because of the weak business environment, with high interest costs, leading to weak debt protection metrics over the medium term. The ratings may be further downgraded in case of slower-than-expected movement in DLF's divestments of non-core assets and consequent delay in debt reduction, or if there is a sharp decline in the company's revenues and profitability, triggered by slackened saleability of its projects. Conversely, the outlook may be revised to 'Stable' in case of an increase in DLF's operating cash flows, or a significant reduction in the debt levels.

About the Company

DLF, along with its subsidiaries, is one of the oldest and largest real estate companies in India. The company has a diverse asset portfolio, across real estate segments, and is expanding its presence across India.

For 2011-12, DLF reported a net profit of Rs.12.01 billion on sales of Rs.96.29 billion, against a net profit of Rs.16.40 billion on sales of Rs.95.61 billion for 2010-11. For the six months ended September 30, 2012, the company reported a net profit of Rs.4.01 billion on net sales of Rs.42.37 billion, against a net profit of Rs.7.43 billion on net sales of Rs.49.78 billion for the corresponding period of t

Annexure 1 - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs. Billion)	Rating	Facility	Amount (Rs. Billion)	Rating
Term Loans	115.33	CRISIL A/Negative	Term Loans	115.33	CRISIL A/Negative
Overdraft Facility	4.04	CRISIL A/Negative	Overdraft Facility	4.04	CRISIL A/Negative
Short-Term Loan	17.64	CRISIL A2+	Short-Term Loan	17.64	CRISIL A2+

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Bank Guarantees	6.77	CRISIL A2+	Bank Guarantees	6.77	CRISIL A2+
Letter of Credit	12.29	CRISIL A2+	Letter of Credit	12.29	CRISIL A2+
Proposed Long-Term Bank Loan Facility	1.23	CRISIL A/Negative	Proposed Long-Term Bank Loan Facility	1.23	CRISIL A/Negative
Total	157.30	--	Total	157.30	--

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About CRISIL LIMITED
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