Rating of ICRA]A reaffirmed for NCD Programme and bank facilities of DLF Limited

RATING TABLE

Instrument	Amount Rated (Rs. Crore)	Rating Action as on March '13
NCD Programme	4,000	[ICRA]A (*Re-affirmed*)
Fund Based Facilities	11,118 (increased from11,056)	[ICRA]A (*Re-affirmed*)
Non-Fund Based Facilities	1,636 (reduced from 1,776)	[ICRA]A (*Re-affirmed*)

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced ICRA A)[1] assigned earlier to Rs. 4,000 crore[2] NCD programme, Rs. 11,118 crore (increased from the earlier Rs. 11,056 crore) Fund Based facilities and Rs. 1,636 crore (reduced from the earlier Rs. 1,776 crore) Non-fund Based facilities of DLF Limited (DLF).

While assigning the rating, ICRA has taken a consolidated view of DLF and its subsidiaries given the strong operational, financial and management linkages among various entities..

The rating re-affirmation takes into account the progress made by DLF towards monetization of its non-core assets during FY13. Further, ICRA believes that the plausible equity dilution in line with SEBI's guidelines, coupled with DLF's continued efforts towards monetization of the non-core assets will support the cash flows in the short to medium term. The rating continues to reflect DLF's leading market position in the domestic real estate sector across key micro-markets in the country marked by its exposure to residential, commercial and retail segments; its diversified, well located and low-cost land bank; and its healthy lease income portfolio, which apart from providing stability to DLF's otherwise volatile real estate revenues, also supports its operating profitability.

ICRA has taken note of the limited new launches by DLF in the last one year. Nonetheless, rating continues to draw comfort from the high booking ratio in its residential projects including the recently launched ones, which provides visibility to the future cash flows and also lowers the market risks for these on-going projects. The rating also derives support from DLF's successful track record of project management and execution, which is further strengthened on account of association of reputed construction contractors like Shapoorji Pallonji and L&T.

Notwithstanding the progress made towards monetization of non-core assets, the rating is constrained by DLF's high debt levels as on December 31, 2012 resulting in moderate debt coverage indicators for the company and also exposing it to refinancing risks, given the high repayment obligations falling due in the short to medium term. ICRA draws some comfort from significant cash and cash equivalents of about Rs. 3150 crore as on December 31, 2012, which coupled with expected cash flows from monetization of non-core assets, and equity dilution will help the company in meeting its debt servicing obligations.

The rating also takes into account the sluggish demand in the real estate sector that poses a challenge to the company in maintaining its sales/lease volumes especially in its on-going commercial projects and proposed new residential projects specifically catering to luxury/super luxury segment where the activity has remained tepid over the last year. Further, the rating also factors in the exposure to cost escalation risk especially for its older projects (those launched before FY12 and having pending cost of around Rs. 2300 crore, company has increased its budgeted cost twice for these projects – Rs. 300 crore in Q4FY12 and Rs. 562 crore in Q3FY13); however, the risk is partially mitigated for its newer projects on account of introduction of cost escalation clause in its buyer's agreement.

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other rating publications*
[2] *100 lakh = 1 crore = 10 million*

While assigning the rating, ICRA has also noted the on-going litigations (Income tax demand and CCI penalty) against the company; however the financial impact of the same on DLF cannot be ascertained at this stage since the cases are sub-judice.

Going forward, DLF's ability to reduce its debt levels, maintain its divestment momentum, and improve the cash flows from its core operations would be amongst the key rating sensitivity factors.

Company's Profile
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 Hauz Khas as well as one of Asia's largest private townships "DLF City" in Gurgaon, Haryana. DLF is currently developing 60.95 mn. sq.ft. across the country. Some of its key subsidiaries based on subscribed equity capital are DLF Assets Limited (rated [ICRA]A (SO)) and DLF Cyber City Developers Limited (rated [ICRA]A (SO)).

Recent Results (Consolidated)
For FY12 (April 2011-March 2012), DLF reported a net profit of Rs. 1178 crore on an operating income of Rs. 9662 crore as compared to net profit of Rs. 1540 crore on an operating income of Rs. 9681 crore over the same period a year ago. In the first nine months of FY13, DLF has reported a net profit of Rs. 649 crore on an operating income of Rs. 5593 crore.

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For further details please contact:

Analyst Contacts:
Mr. Rohit Inamdar, (Tel No. +91-124-4545847)
rohit.inamdar@icraindia.com

Relationship Contacts:
Mr. Vivek Mathur, (Tel. No. +91-124- 4545310)
vivek@icraindia.com

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