DLF

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,356	DLFU IN
	REUTERS CODE
S&P CNX: 4,333	DLF.BO

31 July 2008

Buy

Previous Recommendation: Buy

Rs512

Equity Shares (m)	1,722.0
52-Week Range	1,225/350
1,6,12 Rel. Perf. (%)	22/-21/-9
M.Cap. (Rs b)	880.8
M.Cap. (US$ b)	20.7

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	26,344	19,339	12.6	-27.1	55.0	29.9	54.4	30.6	48.6	86.2
3/08A	142,287	78,558	46.1	264.5	15.1	5.8	38.2	42.5	9.1	13.2
3/09E	185,125	83,629	49.1	6.5	14.2	4.8	33.5	32.1	7.0	11.2
3/10E	202,205	92,030	54.0	10.0	12.9	3.8	29.3	32.7	6.1	9.4

- **1QFY09 results below estimates:** DLF's 1QFY09 results were below our estimates. Revenue grew 24% YoY to Rs38b v/s our est of Rs43b. PAT grew 22% YoY to Rs18.6b (v/s our est of Rs18.8b), primarily due to lower interest cost and tax provisioning (16.6% effective tax rate).
- **Concern continues on high outstanding from DAL:** Sales to DLF Asset Ltd (DAL) stood at Rs15.5b (40% of revenue), while non-DAL sales stood at Rs22.8b (60% of revenue). DAL accounted for 47% of PBT. Outstanding from DAL increased by Rs14.5b to Rs33.8b, which is concerning. Management has indicated that DAL is likely to raise US$500m during 2QFY09, which would help it in reducing its leverge.
- **Liquidity strain visible:** During 1QFY09, gross debt increased by 16% QoQ to Rs14.2b, while cash reduced by 53% QoQ to Rs10b. Net DER increased to 0.6x v/s 0.5x in 4QFY08. The management has guided for DER of 0.3x for FY09 backed by robust development cash flows, stake sale at SPV level and monetization of investment in the hospitality and power vertical.
- **Valuations and view:** We view DLF as the best managed RE company in India with a very robust business model and rate it as the best proxy for investment in the RE sector. Our FY10 NAV for DLF is Rs547/sh. Our NAV does not include potential value creation from i) Bidadi and Dankuni project, ii) value creation possibility from subsidiary companies in the construction, life insurance and entertainment business, and iii) potential value unlocking from large SEZs, which could increase our NAV substantially. Maintain **Buy.**

QUARTERLY PERFORMANCE (Rs Million)

Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	**30,738**	**32,499**	**35,984**	**43,065**	**38,106**	**43,349**	**46,281**	**57,389**	**142,287**	**185,125**
Change (%)	-	-	-	-	*24.0*	*33.4*	*28.6*	*33.3*	*440.1*	*30.1*
Total Expenditure	8,699	9,863	10,970	15,236	14,661	16,204	17,079	21,010	44,768	68,954
EBITDA	**22,039**	**22,637**	**25,014**	**27,829**	**23,445**	**27,145**	**29,203**	**36,379**	**97,518**	**116,171**
% Change	-	-	-	-	*6.4*	*20*	*17*	*31*	*556*	*19.1*
As % of Sales	*71.7*	*69.7*	*69.5*	*64.6*	*61.5*	*62.6*	*63.1*	*63.4*	*68.5*	*62.8*
Depreciation	166	110	148	362	546	556	515	443	785	2,060
Interest	1,077	36	788	1,079	541	1,535	1,478	1,597	2,980	5,152
Other Income	472	993	528	658	357	221	221	206	2,652	1,006
PBT	**21,268**	**23,484**	**24,606**	**27,048**	**22,715**	**25,275**	**27,431**	**34,545**	**96,405**	**109,965**
Tax	6,037	3,301	3,218	4,978	3,766	6,716	7,163	8,691	17,534	26,336
Effective Tax Rate (%)	*28.4*	*14.1*	*13.1*	*18.4*	*16.6*	*26.6*	*26.1*	*25.2*	*18.2*	*23.9*
Reported PAT	**15,231**	**20,182**	**21,389**	**22,070**	**18,949**	**18,559**	**20,267**	**25,854**	**78,871**	**83,629**
Change (%)	-	-	-	-	*24.4*	*-8.0*	*-5.2*	*17.1*	*307.3*	*6.0*
Adj. PAT	**15,155**	**20,185**	**21,450**	**21,769**	**18,640**	**18,559**	**20,267**	**25,854**	**78,558**	**83,320**
Change (%)	-	-	-	-	*23.0*	*-8.1*	*-5.5*	*18.8*	*305.7*	*6.1*

E: MOSt Estimates

Siddharth Bothra (SBothra@MotilalOswal.com)/Satyam Agarwal (AgarwalS@MotilalOswal.com)/ Mansi Trivedi (Mansi.Trivedi@MotilalOswal.com)

1QFY09 results below estimates

DLF's 1QFY09 results were below our estimates. Revenue grew 24% YoY to Rs38b v/s our est of Rs43b. Revenue includes rental income of Rs930m from 7msf leased commercial offices in the books. EBITDA stood at Rs23.4b v/s our est. of Rs26.4b, EBITDA margin stood at 61.5% v/s our est of 62%. PAT grew 22% YoY to Rs18.6b (v/s our est of Rs18.8b), primarily due to lower interest cost and tax provisioning (16.6% effective tax rate). Management has stated that ~Rs3.4b of interest cost has been capitalized during 1QFY09. Total receivables remained flat QoQ at Rs76b. Even though non-DAL receivables declined by Rs14.5b, outstanding from DAL increased by Rs14.5b to Rs33.8b.

Outstanding from DAL increased 75% QoQ to Rs33.8b - a concern

Sales to DLF Asset Ltd (DAL) stood at Rs15.5b (40% of revenue), while non-DAL sales stood at Rs22.8b (60% of revenue). DAL accounted for 47% of PBT. Outstanding from DAL increased by Rs14.5b to Rs33.8b, which is concerning.

DAL CONTINUES TO CONTRIBUTE 47% OF PBT (RS M)

	FY08				FY09
	1Q	2Q	3Q	4Q	1Q
DLF Assets					
Revenues	16,540	13,870	20,570	18,450	15,570
Construction Costs	5,240	3,030	4,870	5,460	4,820
Overheads	1,460	1,000	1,350	-	-
PBT	9,840	9,840	14,350	12,990	10,750
Non DAL					
Revenues	14,198	18,629	15,414	24,615	22,890
PBT	11,428	13,644	10,256	14,058	11,960
Total Revenue	**30,738**	**32,499**	**35,984**	**43,065**	**38,460**
Total PBT	**21,268**	**23,484**	**24,606**	**27,048**	**22,710**
DLF Assets (% of total)					
Revenues	53	41	56	42	40
PBT	46	42	58	48	47
Non DAL (% of total)					
Revenues	46	57	43	57	60
PBT	54	58	42	52	53
Amount Recd (Rs m)	24,000	7,910	6,220	17,940	1,110
Amount O/s (Rs m)	16,040	22,000	20,370	19,360	33,820
Gross Fixed Assets	**16,928**	**22,122**	**24,105**	**51,626**	**53,170**

Source: Company/Motilal Oswal Securities

Liquidity strain visible

During 1QFY09, gross debt increased by 16% QoQ to Rs142b, while cash reduced by 53% QoQ to Rs10b. Net DER increased to 0.6x v/s 0.5x in 4QFY08. The management has guided for DER of 0.3x for FY09 backed by robust development cash flows, stake sale at SPV level and monetization of investment in the hospitality and power vertical. Debt repayment profile for DLF is comfortable with only Rs19b due for repayment within the next 12 months, as against its total gross debt of Rs142b in 1QFY09.

Total receivables remained flat QoQ at Rs76b. Even though non-DAL receivables declined by Rs14.5b, outstanding from DAL increased by Rs14.5b to Rs33.8b, which is concerning. Management has indicated that DAL is likely to raise US$500m during 2QFY09, which would help it in reducing its leverge. Loans and advances also increased by 33% QoQ to Rs97.8b from Rs73.6b in 4QFY08. During FY09, the management expects a construction capex of Rs60b for the real estate vertical and Rs20b for the power vertical.

LEVERAGE REMAINS COMFORTABLE AT 0.6X (RS M)

	FY08				FY09
	1Q	2Q	3Q	4Q	1Q
Gross Fixed Assets	16,928	22,122	24,105	51,626	53,170
Net Worth	138,178	158,740	176,858	196,882	217,321
Debt	**103,466**	**77,854**	**92,403**	**122,771**	**142,209**
Cash	94,692	50,766	7,760	21,422	10,015
Sundry Debtors	37,478	38,936	64,790	76,106	76,052
Loans and Advances	51,184	67,324	76,378	73,686	97,893
CWIP	27,105	29,746	32,778	51,840	61,050
Net Current Assets	189,430	140,058	189,920	193,843	217,582
Net Debt	**8,774**	**27,088**	**84,643**	**101,349**	**132,194**
Net Debt/Equity Ratio (x)	0.1	0.2	0.5	0.5	0.6

Source: Company/Motilal Oswal Securities

Land cost outstanding down by 12% QoQ

During 1QFY09, DLF paid Rs19.7b as advances towards land and development charges. As a result, the total land cost outstanding declined by 12% QoQ to Rs58b v/s Rs66b in 4QFY08. Of the total land cost of Rs58b, Rs50b is payable to the government authorities over a period of 3-5 years while the balance is payable to the private land owners in FY09. The management indicated that its land cost commitment for FY09 would be ~Rs3b.

DLF'S LAND COST OUTSTANDING CONTINUES TO BE LOW AT 6% OF MCAP

	FY08				FY09
	1Q	2Q	3Q	4Q	1Q
Land Cost (Rs b)					
Total Amount Outstanding	154	220	226	236	243
Less: Paid	99	154	139	165	179
Less: Receivable from Merill				5	5
Outstanding	55	66	86	66	58
As a % of Mcap (%)	6.2	7.5	9.8	7.5	6.6
Payable to Govt				57	50
Payable to Pvt Land Owners				9	8

Source: Company/Motilal Oswal Securities

Bookings weak at 5.5msf during 1QFY09

Total sales booked during 1QFY09 stood at 5.5msf, with residential vertical accounting for 2.1msf, commercial 2.4msf and retail 0.9msf. Typically, 1Q is the weakest quarter for RE companies with 3Q and 4Q being the strongest. Hence the 1Q data sales may not be strictly reflective of the full year performance.

BOOKINGS WEAK AT 5.5MSF DURING 1QFY09

	FY08				FY09
	1Q	2Q	3Q	4Q	1Q
Residential					
Sales	0.5	0.1	1.4	8.0	2.1
Office					
Lease	1.4	0.9	0.9	1.5	0.7
Sales	2.9	1.6	2.4	1.9	1.8
Total - Office	**4.3**	**2.5**	**3.3**	**3.3**	**2.4**
Retail					
Lease	0.2	1.1	0.2	0.1	0.0
Sales	0.1	0.0	0.0	1.8	0.9
Total - Retail	**0.3**	**1.1**	**0.2**	**1.9**	**0.9**
Total	**5.1**	**3.6**	**4.8**	**13.2**	**5.5**

Source: Company/Motilal Oswal Securities

Commercial area leased/booked slowed down 27%QoQ to 2.4msf

Commercial area leased/booked slowed down 27% QoQ to 2.4msf, which is one of the lowest sales/lease since DLF's listing. The new commercial launches stood at 1.2msf v/s no significant launches in 4QFY08. DLF has pre-leased/ sold commercial office space of 1.8msf, resulting in cumulative pre-lease/sales of 15msf in 1QFY09. The area under construction now stands at 36.4msf v/s 38.2msf in 4QFY08. In FY09, DLF handed over commercial space of 3.1msf. Weighted average sales rates during 1QFY09 declined by 10% QoQ and stood at Rs8,884/sf, while average lease rates increased by 13% QoQ and stood at Rs69/sf. The current run rate in terms of lease agreements being signed stands at 8.2msf pa, which is lower than v/s DLF's target of 12msf pa.

DETAILS OF OFFICE SPACES DELIVERED IN 1QFY09

PROJECT	AREA (MSF)
Noida IT Park, Tower C	0.36
Chennai IT Park, block 5	0.75
Bldg no 7, Cybercity, Gurgaon	0.27
DLF Akruti SEZ, Pune, Block 1 and 3	0.91
Bldg no 9, Cybercity, Gurgaon, Block B	0.76
Total	**3.05**

Source: Company/Motilal Oswal Securities

0.7MSF COMMERCIAL AREA LEASED DURING 1QFY09 (MSF)

	FY08				FY09
	1Q	2Q	3Q	4Q	1Q
Office Space					
Lease/Sales Booked					
Opening Balance	8.31	11.27	11.48	13.41	16.03
Add:Lease Booked	1.41	0.86	0.93	1.47	0.68
Add: Sale Booked	2.89	1.59	2.35	1.87	1.75
Total	4.30	2.45	3.28	3.34	2.43
Less: Handed Over	1.34	2.24	1.35	0.71	3.05
Closing Balance	11.27	11.48	13.41	16.04	15.41
Under Construction					
Opening Balance	25.8	29.5	34.4	39.8	38.2
New Launched	5.1	7.1	6.8	**-0.9**	**1.2**
Handed Over	1.3	2.2	1.4	0.7	3.1
Closing Balance	29.6	34.4	39.8	38.2	36.4
For Sale Business (Rs/sf)					
Wt. Avg. Rate(Sale Price)	6,131	6,865	8,769	9,830	8,884
Wt. Avg Land+Const Cost	1,793	1,708	1,689	1,719	1,902
For Lease Business (Rs/sf/m)					
Average Rate (Lease Rate)	49	57	43	61	69
Wt. Avg Land+Const Cost	1,923	1,832	1,702	2,000	2,189

Source: Company/Motilal Oswal Securities

Retail volumes lower at 0.9msf v/s 1.9msf in 4QFY08

In the retail segment, DLF has leased and booked sales 0.9msf during 1QFY09. The cumulative lease/sales booked currently stands at 7.3msf v/s 6.4msf in 4QFY09. During 1QFY09, DLF launched 1.1msf of new retail projects. Projects under construction stand at 12.4msf in 1QFY09 v/s 11.3msf in 4QFY08. Average sales realizations during the quarter dropped by 35% QoQ to Rs8,773/sf while average lease rentals increased 31% QoQ to Rs289/sf per month. In retail, DLF is adopting a strategy of lease towards project completion v/s pre-lease in the commercial office venture, as it expects strong improvement in rentals going forward.

NEW RETAIL LAUNCHES OF 1.1MSF IN 1QFY09

	FY08				FY09
RETAIL (MSF)	1Q	2Q	3Q	4Q	1Q
Lease/Sales Booked					
Opening Balance	3.2	3.9	5.0	5.1	6.4
Add:Lease Booked	0.2	1.1	0.2	0.1	0.0
Add: Sale Booked	0.1			1.8	0.9
Total	**0.3**	**1.1**	**0.2**	**1.9**	**0.9**
Less: Handed Over	0.0	0.0	0.8	0.6	0.0
Closing Balance	3.5	5.0	4.3	6.4	7.3
Under Construction					
Opening Balance	11.7	13.0	13.4	11.6	11.3
New launched	1.2	0.5	-1.0	**0.3**	**1.1**
Handed Over	0.0	0.0	0.8	0.6	0.0
Closing Balance	12.9	13.4	11.6	11.3	12.4
For Sale Business (Rs/sf)					
Average Rate (Sale Price)	23,292	15,237	14,828	13,570	8,773
Wt. Avg Land + Const Cost	5,463	5,375	4,505	3,521	2,544
For Lease Business (Rs/sf/m)					
Average Rate (Lease Rate)	115	313	321	220	289
Wt. Avg Land+Const Cost	4,250	7,437	9,091	8,462	8,735

Source: Company/Motilal Oswal Securities

Residential sales of 2.1msf buoyed by mid-income housing launches

In 1QFY09, DLF booked sales of 2.1msf in the mid-income residential segment. The average selling rate in 1QFY09 declined by ~8% to Rs3,028/sf. The average cost stood at Rs1,755/sf, resulting in gross margins of Rs1,273/sf (v/s Rs1,394 in 4QFY08). There were no new launches in the super luxury/luxury segments during 1QFY09. DLF aims to further strengthen its position in the super luxury/luxury residential segment and plans to launch projects in Goa and Kasauli (Chandigarh), Chanakyapuri, Delhi and Tulsiwadi, Mumbai in FY09/FY10. These projects are expected to start contributing to revenues from FY10 onwards

DETAILS OF RESIDENTIAL LAUNCHES IN 1QFY09

CITY	BOOKINGS NOS	BOOKINGS MSF	LAUNCH PRICE (RS/SF)	CURRENT PRICE (RS/SF)	INCR. (%)
New Gurgaon	484	0.95	2934	3275	11.6
Chennai	462	0.75	3180	3650	14.8
Indore	59	0.12	1730	1730	0.0

Source: Company/Motilal Oswal Securities

RESIDENTIAL SALES OF 2.1MSF BUOYED BY SALES IN MID-INCOME HOUSING SEGMENT (MSF)

	FY08				FY09
HOMES	1Q	2Q	3Q	4Q	1Q
Sales Booked					
Opening Balance	4.8	5.3	5.4	6.8	14.6
Booked	0.5	0.1	1.4	8.0	2.1
Closing Balance	5.3	5.4	6.8	14.6	16.7
Under Construction					
Opening Balance	6.7	6.7	8.3	7.5	12.1
New Launched (Complet.)	0.0	0.0	0.6	4.9	2.1
Handed Over	0.0	0.0	1.8	0.2	0.0
Closing Balance	6.7	6.7	7.0	12.1	14.2
Avg. Rate (Rs/sf) (Sale Price (Apts)	13,179	8,683	4,628	3,281	3,028
Avg Land + Const Cost (Apts)	2,171	1,671	1,666	1,887	1,755
Margins (Rs/sf)	11,008	7,012	2,962	1,394	1,273
Average Rate (Rs/sf) (Sale Price) (Plots)	-	-	-	798	804
Avg Land + Const Cost (Plots) (Rs/sf)	-	-	-	393	360
Margins	-	-	-	405	444
Avg Margins (Apts+Plots) (Rs/sf)	11,008	7,012	2,962	1,240	1,129

Source: Company/Motilal Oswal Securities

Progress in hospitality projects

DLF has drawn up plans to have 20,000-25,000 rooms in the luxury and business segments across India, which would make the portfolio one of the largest in the country. The company has signed management contracts with Hilton for seven new hotels with ~1,450 rooms at Delhi (3 hotels), Kolkata, Chennai (2 hotels) and Trivandrum. Construction is expected to commence on 25 hotel projects with 4,255 keys in FY09 and it aims to have 313 keys operational by FY09 (2 hotels in Delhi). DLF is also in the process of setting up five convention centers at Delhi, Goa, Jaipur, Kolkata and Chandigarh, which will make the company the largest convention centre operator in India. We have not valued the hotel vertical in our NAV calculation.

STEADY PROGRESS IN HOTEL PROJECTS

PROJECT	LOCATION	OPERATION DATE	UPDATE
International Convention Centre	Dwarka, New Delhi	-	Excavation work started in April 2008
Hilton Garden Inn	Saket, New Delhi	March 2009	Fit out in progress, to be operational in March 2009
	Rohini, New Delhi	March /April 2010	Excavation to start in August 2008
Rajiv Gandhi IT Park	Chandigarh	Oct-10	Excavation to start in March 2008
DLF Phase I Club	Gurgaon	Jul-10	Work scheduled to start in August 2008
DLF Phase III Club	Gurgaon	Nov-08	Work started in Sept 2006
DLF Phase V Club	Gurgaon	Dec-08	Work in progress

Source: Company/Motilal Oswal Securities

DETAILS OF LAND BANK (MSF)

	FY08				FY09
	1Q	2Q	3Q	4Q	1Q
Land Bank (msf)	**615**	**738**	**748**	**751**	**755**
Resi Super Luxury	4	4	4	4	4
Resi Luxury	41	48	48	41	41
Resi Mid Income Homes/ villas/plots/inst	356	439	440	432	438
Commercial	124	141	151	164	161
Retail	90	106	88	92	92
Hotels	0	0	17	18	19
Land Bank (msf)	**615**	**738**	**748**	**751**	**755**
Super Metros	254	257	265	251	250
Metros	205	333	346	345	345
Tier 1	110	105	106	123	123
Tier 2	46	43	31	32	36
Owned/Joint Develop.	**629**	**738**	**748**	**751**	**755**
Owned	588	705	695	691	696
Jt Dev / JVs	41	33	53	60	60

Source: Company/Motilal Oswal Securities

Marginal change in land bank and area under construction

During 1QFY09, DLF's land bank stood at 755msf v/s 751msf in 4QFY08. The addition of 4msf of land bank for residential purpose has been in Pune and Jalandhar. The area under construction increased by 2% QoQ to ~63msf v/s ~62msf in 4QFY08, comprising 36.4msf in the commercial vertical (down 5% QoQ), 12.4msf in the retail vertical (up 9% QoQ) and 14.2msf (up 17% QoQ) in the residential vertical. Three IT/ITES SEZs (Kolkata, SIEL and Gandhinagar) were notified during 1QFY09, increasing the total number of notified IT/ITES SEZs to 10 v/s 7 in 4QFY08.

63MSF UNDER CONSTRUCTION (MSF)

	FY08				FY09	QoQ	YoY
	1Q	2Q	3Q	4Q	1Q	%	%
Area under construction	**49.1**	**54.6**	**58.5**	**61.6**	**62.9**	**2.0**	**27.9**
Office	29.6	34.4	39.8	38.2	36.4	-4.8	23.0
Retail/ Mall	12.9	13.4	11.6	11.3	12.4	9.4	-4.1
Residential	6.7	6.7	7.0	12.1	14.2	16.9	111.8

Source: Company/Motilal Oswal Securities

Aggressive launch schedule

In terms of execution, we believe DLF is better positioned, based on its vast industry experience, larger developed area till date and JVs with strategic partners. We believe this is a positive as execution is increasingly becoming a significant risk with all Indian developers. The JV with Laing O'Rourke (one of Europe's largest construction company) provides access to one of the best technology, processes and engineering skills. The joint venture has already commenced construction on 18 projects covering 39+ msf. We estimate DLF's development volumes to peak 80.4msf in FY10 comprising residential vertical (42.2msf), offices (16msf), and retail (8.7msf).

FY10 NAV of Rs547/share, maintain buy

We expect FY09 to be a year of consolidation for the RE industry, in which the industry leaders would get differentiated from peers. We believe developers with staying power and robust business models would utilize this

TOTAL LAUNCH PLANS (MSF)

	TOTAL	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Residential	303	27.1	39.4	42.2	41.5	32.7	36.5	23.7	17.5	20.0	0.1	0.0	0.0
Offices	129	18.7	25.1	15.9	15.9	12.0	7.3	5.6	5.1	1.7	0.0	0.0	0.0
Retail	58	14.3	15.8	8.7	3.4	2.9	1.6	1.6	1.5	0.5	0.0	0.0	0.0
Total	**490**	**60.1**	**80.4**	**66.8**	**60.8**	**47.5**	**45.4**	**30.8**	**24.1**	**22.2**	**0.1**	**0.0**	**0.0**

Source: Company/Motilal Oswal Securities consolidation phase to emerge stronger and position themselves in an advantageous manner to capitalize on the growth phase post consolidation. We view DLF as the best managed RE company in India with a very robust business model and rate it as the best proxy for investment in the RE sector.

Our FY10 NAV for DLF is Rs547/sh. Our NAV does not include potential value creation from i) Bidadi and Dankuni project, ii) value creation possibility from subsidiary companies in the construction, life insurance and entertainment business, and iii) potential value unlocking from large SEZs, which could increase our NAV substantially. Maintain **Buy.**

FY10 NAV OF RS547/SHARE

	(RS M)	NAV/ SHARE	% OF NAV	% OF GAV
Residence	**551,833**	**320**	**59**	**38**
Apartment	427,334	248	45	29
Luxury	73,278	43	8	5
Premium	173,099	101	18	12
Mass Housing	180,956	105	19	12
Villas	37,484	22	4	3
Plots	87,016	51	9	6
Commercial	**469,836**	**273**	**50**	**32**
Lease	133,914	78	14	9
Sale	335,922	195	36	23
Retail	**319,236**	**185**	**34**	**22**
Lease	278,541	162	30	19
Sale	40,695	24	4	3
Institutional Plots	15,418	9	2	1
Total	**1,356,322**	**788**	**144**	**93**
Add:	104,534	61	11	7
Gross Asset Value (GAV)	**1,460,856**	**848**	**155**	**100**
Less: Tax	298,391	173	-32	-20
Add: Cash	19,371	11	2	1
Add: Hotels	36000	21	4	2
Less: Debt	122,609	71	-13	-8
Less: Land Cost	31,000	18	-3	-2
Less: Operating Exp	122,069	71	-13	-8
Net Asset Value (NAV)	**942,158**	**547**	**100**	**64**

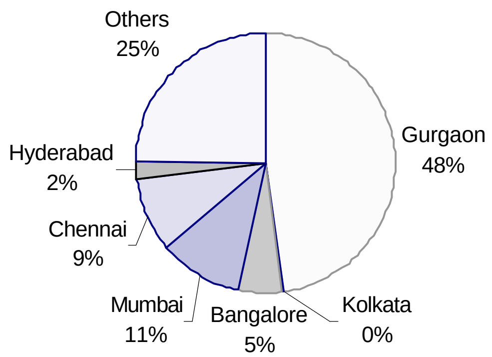
Source: Company/Motilal Oswal Securities

NAV calculation: Key assumptions

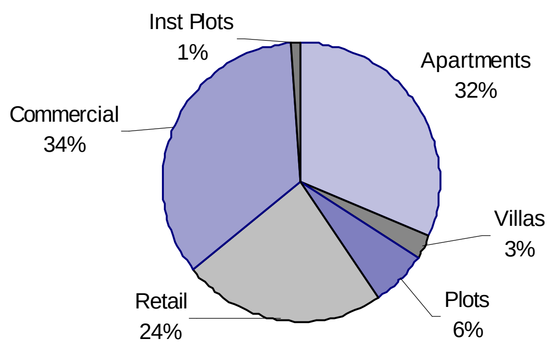
- Our NAV factors in **development plans that will be executed over the next 10 years and not the entire land bank.**
- **'No' price increase in NCR region for apartments and for commercial and retail during FY09-FY12.** We have assumed a price CAGR of 5% in commercial and retail space in NCR from FY13. Even in the existing lease contracts that provide for a 15% increase at the end of every three years, we have assumed no increases in NCR until FY12. For other cities, we have assumed a price increase of 5% CAGR post FY09.
- **Stagnant prices** for all cities and all verticals (residential, commercial and retail) **for FY09.**
- **Occupancy rates of 90%**, both in commercial and retail segments during FY08-FY17.
- **5% CAGR in construction cost** for all verticals.
- **Cap rate** of 10% in the commercial vertical and 11% in the retail vertical.
- **WACC** of 13.8%, assuming long term targeted DER of 1:1

CITY-WISE AND VERTICAL-WISE GAV ANALYSIS

CITY-WISE GAV ANALYSIS



VERTICAL-WISE GAV ANALYSIS



Source: Company/Motilal Oswal Securities

NAV calculations: What we have not considered

Over estimated NAV of Rs547/share does not factor in the development plans spilling beyond FY17 (44msf), value creation possible from various JVs, and plans for SEZs.

A) Value from Dankuni and Bidadi projects

We have excluded the Dankuni and Bidadi projects from our NAV calculation, as these projects involve land acquisition issues that have political overtones. Additionally, we believe that any delay in land acquisition/transfer would only add to the parameter of long gestation period.

B) Value creation possible from JVs

Hotels: Hilton (DLF's stake 74%)
Construction: DLF Laing O'Rourke (India) Ltd (DLF's stake 50%)
Design: WSP Group (DLF's stake 50%)
Insurance: Prudential (DLF's stake 74%)
AMC: Prudential (DLF's stake 40%)
Fraport AG: Development and management of certain airport projects in India
Others: Property maintenance, DT cinemas, etc
MoU with Nakheel: Setting up two SEZs (in Gurgaon and South Maharashtra) of 20,000 acres each (DLF's stake 50%)
SEZ plans: DLF has plans to set up a multi-product SEZ spread over 2,500 acres at Ludhiana, 1,087 acres multi product SEZ at Amritsar, 20,000 acres multi-product SEZ at Gurgaon and 3,000 acres multi-product SEZ in Ambala, Haryana. Both the SEZs in Haryana would be through JV with Haryana State Industrial and Infrastructure Development Corporation (HSIIDC)

NAV upgrades possible

1) **Land bank augmentation:** We believe DLF would be able to leverage its strong financial position to aggressively pursue new land banking opportunities, leading to strong and visible NAV upsides. Our current NAV calculation does not factor in any reinvestment of surplus cash flow in land bank augmentation. The company is in the process of constantly augmenting its land bank, which has increased by ~177msf over a period of one year. Continuous value creation through this activity is not getting captured in our NAV calculation, which does not value DLF on a 'going concern enterprise' basis.

2) **Hotels and SEZs - emerging growth drivers:** We believe going forward DLF will invest sizeable amounts of capital in hotels and SEZ segments, which again provide interesting value maximization opportunities. We have not assigned any value to these ventures, as they continue to be in preliminary stages.

Hotels: DLF has drawn up plans to have 20,000-25,000 rooms in the luxury and business segments across India, which would make the portfolio one of the largest in the country. The company has signed management contracts with Hilton for seven new hotels with ~1,450 rooms at Delhi (3 hotels), Kolkata, Chennai (2 hotels) and Trivandrum. Construction is expected to commence on 25 hotel projects with 4,255 keys in FY09 and it aims to have 313 keys operational by FY09 (2 hotels in Delhi). DLF is also in the process of setting up five convention centers at Delhi, Goa, Jaipur, Kolkata and Chandigarh, which will make the company the largest convention centre operator in India. We have not valued the hotel vertical in our NAV calculation.

SEZs: DLF has signed an MoU with Nakheel Llc, a leading real estate developer in UAE, to develop large real estate projects in India in a 50:50 JV. The management has indicated that the land acquisition on the initial two projects (20,000 acres each in Gurgaon and Goa) have commenced. The JV has already bagged 9,178 acres 'Bidadi Knowledge City' project from Bangalore Metropolitan Region Development Authority (BMRDA) in Bangalore. The bid consideration stands ~Rs72b (land cost Rs2.7m/acre and Rs5.7m/acre development cost).

DLF: an investment profile

Company description

DLF is one of the largest real estate companies in India. Founded in 1946, DLF has developed some of the first residential colonies in Delhi such as Krishna Nagar in East Delhi that was completed as early as 1949. Since inception, the company has developed ~224msf, including 22 urban colonies as well as an integrated 3,000-acre township in Gurgaon by the name of DLF City.

Key investment arguments

- DLF is uniquely positioned in emerging and profitable segments
- DLF is better placed to face macro challenges as commercial, retail, luxury and premium housing account for the bulk of its GAV and it has one of the best financial positions among Indian developers.
- Sizable embedded value in joint ventures

Key investment risks

- We have assumed substantial scale-up of operations for DLF over FY09-FY13. Such a significant scale-up carries with it associated execution risks.
- Any weaker-than-expected GDP growth for the economy could negatively impact the demand, which could affect our sales and earnings estimates for DLF.

Recent developments

- Acquired large projects including Bidadi Knowledge City (Bangalore), SBM (Delhi), Tidel (Chennai), Raidurg and Kokapet (Hyderabad) signed management contracts with Hilton for seven hotels (~1,450 rooms).

Valuation and view

- Our FY10 NAV for DLF is Rs547/sh. Our NAV does not include potential value creation from i) Bidadi and Dankuni project, ii) value creation possibility from subsidiary companies in the construction, life insurance and entertainment business, and iii) potential value unlocking from large SEZs, which could increase our NAV substantially. Maintain **Buy.**

Sector view

- Indian real estate industry is witnessing consolidation and increase in market share of the large real estate companies.
- Indian real estate market will pass through a phase of efficient asset pricing and consolidation over the next 18-24 months. This would be largely driven by access to institutional funding.

COMPARATIVE VALUATIONS

		DLF	UNITECH	IBREL
P/E (x)	FY09E	14.2	26.1	30.4
	FY10E	12.9	16.8	60.9
P/BV (Rs)	FY09E	4.8	10.3	2.2
	FY10E	3.8	7.3	1.2
EV/Sales (x)	FY09E	7.0	8.4	22.7
	FY10E	6.1	11.6	2.8
EV/EBITDA (x)	FY09E	11.2	17.0	31.8
	FY10E	9.4	11.6	16.4

SHAREHOLDING PATTERN (%)

	JUN-08	MAR-08	JUN-07
Promoter	88.2	88.2	88.2
Domestic Inst	0.6	0.7	0.8
Foreign	6.7	7.6	6.0
Others	4.6	3.6	5.0

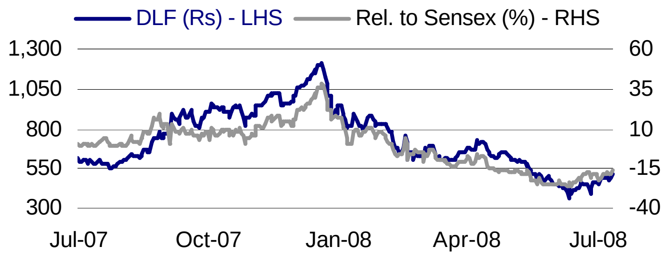
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	49.1	54.2	-9.4
FY10	54.0	66.2	-18.5

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
512	547	6.9	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT				(Rs million)
Y/E MARCH	**2007**	**2008**	**2009E**	**2010E**
Net Sales	**26,344**	**142,287**	**185,125**	**202,205**
Change (%)	*43.5*	*440.1*	*30.1*	*9.2*
Construction expenses	7,278	37,314	60,982	62,836
EBITDA	**14,867**	**97,518**	**116,171**	**130,429**
% of Net Sales	*56.4*	*68.5*	*62.8*	*64.5*
Depreciation	578	785	2,060	2,619
Interest	3,076	2,980	5,152	5,888
Other Income	14,189	2,652	1,006	2,877
PBT	**25,402**	**96,405**	**109,965**	**124,799**
Tax	6,052	17,534	26,336	32,770
Rate (%)	*23.8*	*18.2*	*23.9*	*26.3*
Reported PAT	**19,339**	**78,558**	**83,629**	**92,030**
Change (%)	*370.6*	*306.2*	*6.5*	*10.0*

BALANCE SHEET				(RS MILLION)
Y/E MARCH	**2007**	**2008**	**2009E**	**2010E**
Equity Capital	3,059	3,410	3,410	3,410
Preference Capital	9,498	13,959	0	0
Reserves	22,992	188,412	246,154	310,382
Net Worth	**35,549**	**205,781**	**249,564**	**313,791**
Loans	99,327	122,609	135,000	100,500
Deffered Tax Liability	197	371	0	0
Minority Interest	92	3,923	0	0
Capital Employed	**135,165**	**332,684**	**384,564**	**414,291**
Goodwill	8,935	20,781	20,781	20,781
Gross Fixed Assets	18,044	52,860	89,408	133,833
Less: Depreciation	2,412	3,377	5,437	8,057
Net Fixed Assets	**15,632**	**49,483**	**83,971**	**125,777**
Capital WIP	26,219	50,575	91,622	103,119
Investments	2,107	8,761	8,761	8,761
Curr. Assets	**185,144**	**365,624**	**351,395**	**388,832**
Debtors	15,057	79,075	106,775	112,255
Cash & Bank Balance	4,155	19,371	18,292	57,540
Inventory	56,800	94,803	79,048	84,411
Loans and Advances	52,258	77,325	68,233	50,214
Other Current Assets	74	247	0	0
Current Liab. & Prov.	**46,072**	**67,737**	**72,137**	**127,786**
Creditors	46,072	42,013	45,801	95,016
Provisions	0	25,724	26,336	32,770
Net Current Assets	**82,272**	**203,084**	**200,210**	**176,635**
Application of Funds	**135,165**	**332,684**	**384,564**	**414,291**

E: MOSt Estimates; #Fifteen months ended Mar 2006

RATIOS				(RS MILLION)
Y/E MARCH	**2007**	**2008**	**2009E**	**2010E**
Basic (Rs)				
Adjusted EPS	**12.6**	**46.1**	**49.1**	**54.0**
Growth (%)	*-27.1*	*264.5*	*6.5*	*10.0*
Cash EPS	22.0	103.0	116.0	129.0
Book Value	23.2	120.7	146.4	184.1
DPS	1.3	9.3	9.8	10.8
Payout (incl. Div. Tax.)	10.0	20.0	20.0	20.0
Valuation (x)				
P/E	55.0	15.1	14.2	12.9
Cash P/E	31.6	6.8	6.0	5.4
EV/EBITDA	86.2	13.2	11.2	9.4
EV/Sales	48.6	9.1	7.0	6.1
Price/Book Value	29.9	5.8	4.8	3.8
Dividend Yield (%)	0.2	1.3	1.4	1.6
Profitability Ratios (%)				
RoE	54.4	38.2	33.5	29.3
RoCE	30.6	42.5	32.1	32.7
Leverage Ratio				
Debt/Equity (x)	2.8	0.6	0.5	0.3

CASH FLOW STATEMENT				
Y/E MARCH	**2007**	**2008**	**2009E**	**2010E**
PBT before Extraordinary Item	**25,402**	**96,405**	**109,965**	**124,799**
Add : Depreciation	578	785	2,060	2,619
Interest	3,076	2,980	5,152	5,888
Less : Direct Taxes Paid	6,052	17,534	26,336	32,770
(Inc)/Dec in WC	65,137	120,812	-2,874	-23,575
CF from Operations	**-40,336**	**-31,288**	**109,494**	**163,360**
(Inc)/Dec in FA	-25,386	-58,992	-77,595	-55,922
(Pur)/Sale of Investments	6,193	-6,654	0	0
CF from Investments	**-19,193**	**-65,646**	**-77,595**	**-55,922**
(Inc)/Dec in Networth	9,019	109,831	-21,150	-6,819
(Inc)/Dec in Debt	58,007	23,282	12,391	-34,500
Less : Interest Paid	3,076	2,980	5,152	5,888
Dividend Paid	2,206	17,983	19,067	20,983
CF from Fin. Activity	**61,745**	**112,150**	**-32,978**	**-68,189**
Inc/Dec of Cash	**2,205**	**15,216**	**-1,079**	**39,248**
Add: Beginning Balance	1,950	4,155	19,371	18,292
Closing Balance	**4,155**	**19,371**	**18,292**	**57,540**

For more copies or other information, contact
Institutional: Navin Agarwal. **Retail:** Manish Shah
Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

Disclosure of Interest Statement	DLF
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No