

Company

31 July 2009 | 6 pages

DLF (DLF.BO)

Equity

Alert: First Take on DLF 1QFY10E

Results ahead of estimates – Though revenues of Rs17.46bn and earnings of Rs3.96bn were down 55% YoY and 79% YoY respectively; this was better than our estimated 70% and 90% fall. QoQ growth was however healthy. EBITDA margins of 45% surprised, despite the fall in revenues; would await more details on this. The company has also announced dividend of Rs2/share for FY09.

Operationally, signs of improvement – 1) Construction activity has picked up, now 42msf under contrs (vs. 36.5msf in 4Q), particularly resi projects; also delivered 1msf of off/comm. space, 2) pre-sold ~2.5msf in the qtr – Delhi, Capital Greens (2msf); and Bangalore (0.5msf); 3) total developable area down to 423msf (vs. 425msf earlier due to sale of few projects/land, 4) de-notified 5-SEZs as commercial/IT space demand still muted – though pick-up in enquiries.

DAL Update – DAL outstanding recd to the tune of Rs25bn in the qtr (vs. target Rs20bn), this has lowered receivable to Rs26bn (vs. Rs49bn as of Mar'09), expects another Rs5bn during FY10.

Focus on liquidity and de-leveraging – 1) Reduced debt by Rs20bn, gearing down to 0.5x in Jun'09 (vs. 0.6x in Mar'09) – targeting to reduce this to 0.3x by Mar'10; 2) Sold non-core assets worth Rs5bn in 1Q, expects another Rs50 by end FY10.

Prima facie thoughts – Better than expected qtr though sustaining these margins going forward appear difficult. Operationally, improved construction activity and reducing DAL receivables and debt are positive signs. The mgmt is scheduled to have a conf call today at 16:00hrs (IST) – will come back with more details post the call.

DLF (DLF.BO; Rs402.10; 1L)

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See Appendix A-1 for Analyst Certification and important disclosures.

DLF

Company description

DLF is one of India's oldest real estate developers. Established in Delhi in 1946, it has continued to expand and diversify its real estate businesses, and is among the largest developers in India. It has historically built its businesses in Delhi and adjoining areas, known as the National Capital Region (NCR). DLF has diversified into other geographic locations over the past few years. These expansions are spread across India, with a focus on the Northern India belt, Kolkata, Mumbai, Chennai, and a number of other large and rapidly growing cities. DLF enjoys a strong brand franchise with a good track record in execution and delivery. This is the flagship company of the KP Singh family, with the founders holding a 78.6% stake. It is one of India's largest developers, with a diversified asset portfolio and an emerging pan-India presence.

Investment strategy

We rate DLF Buy/Low Risk (1L), with a target price of Rs464. DLF's proactive measures to address receivable worries, boost pre-sales by cutting prices/launching city centre projects along with steps to ensure liquidity has differentiated itself. Further, promoters bringing in additional capital to address liquidity concerns without dilution augur well and remove concerns about high receivables from DLF Assets (DAL). While risks to the company's business model are on the rise in this tough environment, given DLF's execution track record, growing rental income and geographic-asset mix, we believe it's strongly positioned vs. peers. We recommend a Buy rating for the stock and believe the stock should be a core holding for exposure to the Indian real estate sector.

Valuation

Our target price of Rs464 is based on a 15% discount to our Mar'10 NAV of Rs546. Our NAV includes Rs455 for the development portfolio and Rs91 for other asset holdings and new JV businesses (Rs73/share for the existing 11m sq ft of leased assets and 7.2m sq ft of plots and Rs18/share for DLF's share in the hotel JV). The lower discount vs. peers (30-35%) is attributed to: 1) relatively healthy balance sheet vs. peers; 2) superior business model, strong execution track record; and 3) relatively better disclosure standards. We believe an NAV-based valuation methodology is most appropriate for developers, as it factors in the varied development projects and the spread-out time frame. Our March 2010E NAV is based on: 1) 20% decline in prices from peak levels; 2) development volume of 397msf ; 3) cap rate of 10% for commercial/IT Park, IT SEZs in Super Metros and Metros, and 11% for other locations; 4) average cost of capital of 13% given tight liquidity; and 5) a tax rate of 25%.

Risks

We rate DLF Low Risk since with the funds from recent stake sale by promoters being invested in DAL, visibility of DLF's cash flows improves substantially. The main downside risks to our investment thesis and target price include: 1) The company's asset sale strategy remains contingent on capital flows; 2) Response to DLF's new mid-income project launches in FY10 is crucial for growth ahead; 3) Slowdown in the IT/ITES industry could lead to a decline in demand for commercial real estate; and 4) Slowdown in capital inflows or measures to regulate FDI in the real estate sector.

Appendix A-1

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DLF (DLF.BO)

Ratings and Target Price History Fundamental Research

Analyst: Ashish Jagnani
Covered since August 11 2007

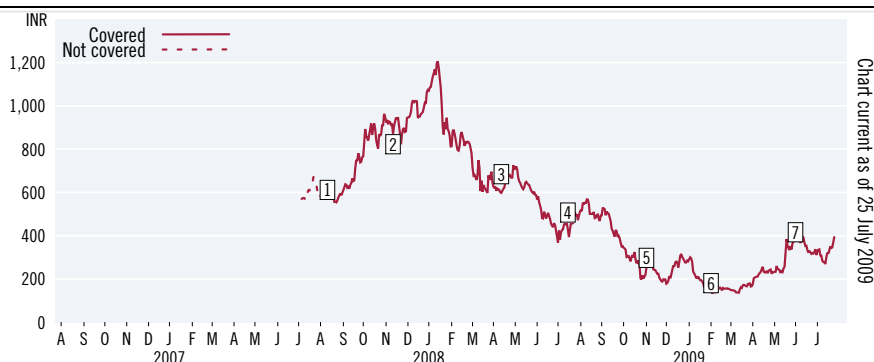


Chart current as of 25 July 2009

	Date	Rating	Target Price	Closing Price
1	10-Aug-07	*1M	*725.00	584.45
2	12-Nov-07	1M	*1,046.00	871.20
3	11-Apr-08	1M	*846.00	598.00

	Date	Rating	Target Price	Closing Price
4	15-Jul-08	1M	*585.00	426.95
5	2-Nov-08	1M	*340.00	220.25
6	1-Feb-09	1M	*240.00	177.20

	Date	Rating	Target Price	Closing Price
7	1-Jun-09	*1L	*464.00	414.85

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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