Update
SECTOR: REAL ESTATE

DLF

STOCK INFO.	BLOOMBERG
BSE Sensex: 18.737	DLFU IN
	REUTERS CODE
S&P CNX: 5,617	DLF.BO

Equity Shares (m)	1,704.8
52-Week Range	989/505
1,6,12 Rel. Perf. (%)	-1/-/-
M.Cap. (Rs b)	1,484.9
M.Cap. (US$ b)	37.7

12 November 2007 **Buy**

Previous Recommendation: Buy Rs871

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	39,419	19,437	12.7	56.2	68.5	33.6	49.0	30.0	40.1	56.0
3/08E	138,926	74,030	43.4	241.7	21.4	9.2	42.8	47.9	11.6	17.7
3/09E	176,948	83,207	48.8	12.4	19.1	6.9	36.1	42.8	8.4	14.1

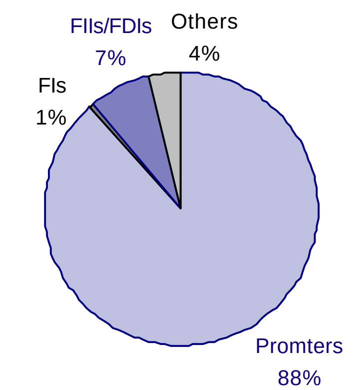
- **Landbank additions and change in development plans positive:** DLF's development area currently stands at 738msf, up from 615msf in 1QFY08. The updated land use plan indicates increased focus towards commercial and retail verticals, which have high yield per acre. Development area for commercial office now stands at 141msf v/s 124msf in 1QFY08 and retail at 106msf v/s 90msf in 1QFY08.

- **Hotels, SEZs, emerging growth drivers:** DLF plans to invest ~US$2b, over next two years in hotels and SEZ segments, which provide interesting, value maximization opportunities. Management has indicated there would be more clarity on these plans towards the end of 3QFY08. In our NAV, we have not assigned any value to these ventures, as they continue to be in the preliminary stages.

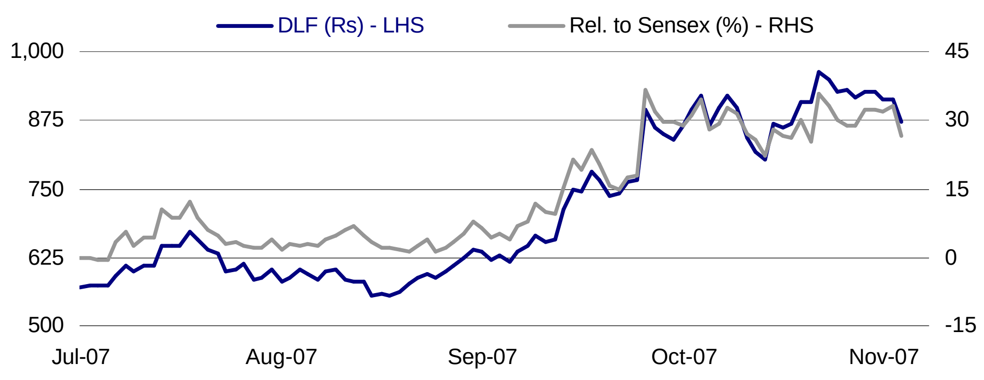
- **2QFY08 result update:** DLF reported robust 2QFY08 results with revenues at Rs32.5b and net profit at Rs20b. During 2QFY08, sales to DLF Asset Ltd. (DAL) which stood at Rs13b, contributed around Rs9.8b to PBT. Total asset sales to DAL stood at ~1.6msf. EBITDA margin stood at 69.7% on the back of higher contribution from commercial offices. Lower tax provisioning of 14% boosted PAT to Rs20b.

- **Maintain Buy:** We estimate DLF's revenue to increase from Rs39.4b in FY07 to Rs177b in FY10, a CAGR of 65%. We are upgrading our FY09 NAV for DLF from Rs539/share to Rs656/share, key factors driving our NAV upgrade are: (1) new landbank acquisitions, (2) lower cap rate assumptions in the commercial vertical from 9.5% to 9%; and (3) change in development plans. We believe DLF is one of the best proxies of the real estate sector in India. Maintain **Buy**.

SHAREHOLDING PATTER (SEP.07 - %)



STOCK PERFORMANCE (SINCE 5 JULY 2007)



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Landbank additions and changes in development plans

DLF's development area currently stands at 738msf, up from 615msf in 1QFY08 and 512msf during June 2007. The updated land use plan indicates an increased focus towards commercial and retail verticals, which have high yield per acre. Development area for commercial office now stands at 141msf, up from 124msf in 1QFY08 and 110msf in June 2007 and for retail, at 106msf v/s 90msf in 1QFY08 and 65msf in June 2007. Area under residential development now stands at 491msf, up from 401msf in 1QFY08 and 437msf in June 2007. This change in development plans is largely due to addition of 125msf development plans at Bidadi, Bangalore.

CHANGES IN DEVELOPMENT PLANS (MSF)

	APR-07	JUN '07	1QFY08	2QFY08	ADDITION
Residential	428	437	401	491	90
Commercial	87	110	124	141	17
Retail	54	65	90	106	16
Total	**569**	**612**	**615**	**738**	**123**

Source: Company

DEVELOPMENT PLANS AS OF SEPTEMBER 2007 (MSF)

	TOTAL	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Residential	491	2.5	23.3	49.6	58.9	65.9	63.6	58.1	56.4	52.4	51.1
Offices	141	19.0	19.7	23.5	16.7	18.8	14.9	10.0	7.5	5.1	1.7
Retail	106	8.8	15.7	15.8	11.5	9.1	10.9	12.2	9.3	4.4	4.1
Total	**738**	**30.3**	**58.7**	**89.0**	**87.1**	**93.8**	**89.4**	**80.3**	**73.2**	**61.9**	**56.9**

Source: Motilal Oswal Securities

DEVELOPMENT PLANS AS OF JUNE 2007 (MSF)

	TOTAL	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Residential	436.7	2.3	15.3	29.8	43.2	50.6	51.7	54.9	52.6	49.8	40.6
Offices	110.0	15.4	12.9	17.1	16.6	14.4	12.2	4.9	3.6	3.0	4.0
Retail	64.9	7.7	12.7	12.2	4.7	2.3	2.2	3.7	3.1	3.4	3.7
Total	**611.5**	**25.4**	**41.0**	**59.2**	**64.6**	**67.3**	**66.2**	**63.5**	**59.3**	**56.2**	**48.3**

Source: Motilal Oswal Securities

Details of key new acquisitions post listing

We believe the following addition of projects further accentuates DLF's market leadership position in the more profitable segments of commercial and retail verticals that have significant entry barriers. The upfront land cost for most of these projects is very high, which needs to be financed through the balance sheet, and thus highlights that large real estate companies like DLF have significant advantages due to their strong financial position.

INTERNATIONAL CONVENTION CENTRE, DELHI

Development Mix (msf)	
Convention centres	0.65
Hotels	0.65
Retail	0.40
Commercial	0.30
Total	**2.00**

Source: Company

1) International Convention Centre, Delhi

- DLF won an International Convention Centre project at Sector 24, Dwarka, New Delhi from Delhi Development Authority (DDA). The project entails development area of 2msf, spread as a Convention centre 0.65msf, hotels 0.65msf, retail 0.4msf and commercial 0.3msf. The project is to be completed over next 3-4 years, and thus a significant part would be ready prior to the Commonwealth Games in October 2010.
- Land cost for the project stands at Rs9b (Rs4500/sq ft), and construction cost is expected at Rs10b (Rs5,000/sq ft). As per the terms of the contract with DDA, DLF is debarred from selling this project, for a period of 10 years from the date of completion, which delays the monetization process.

DCM SHRIRAM CONSOLIDATED MILLS - DELHI

Development Mix (msf)	
Residential	5.0
Retail	2.0
Total	**7.0**

Source: Company

2) DCM Shriram Consolidated Mills - Delhi

- DLF has acquired 38 acres of prime contiguous land from DCM Shriram Consolidated & Lohia Group for a consideration of ~Rs16.7b. The total development area stands at ~7msf (5msf of residential and 2msf of retail), which has been acquired at Rs440m/acre or Rs2,392/sq ft. The effective FSI for the project is ~3.5x, as a result of 50% more FSI on the normal FSI of 2x granted by High Court for mill redevelopment, and a loading of 10-15%.
- The land parcel is strategically located at Shivajimarg Road in West Delhi, which is ~5km from the Central Business District (CBD) area of New Delhi and is well connected to major roads and the Delhi Metro.
- DLF already owns 27 acres in an adjoining piece of land. Hence, with this acquisition of 38 acres, the company can undertake large integrated development project in the centere of Delhi, comprising residential, retail and commercial development. Furthermore, the project is located around a 121-acre DDA city park.

BIDADI KNOWLEDGE CITY - BANGALORE (DLF SHARE)

Development Mix (msf)	
Residential	62.5
Commercial/Retail	12.5
Institutional/IT/Ites	50.0
Total	**125.0**

Source: Company

3) Bidadi Knowledge City - Bangalore

- DLF has bagged 9,178 acres 'Bidadi Knowledge City' project from Bangalore Metropolitan Region Development Authority (BMRDA) in Bangalore, through its 50:50 JV with an arm of the Dubai World Group. The bid consideration stands ~Rs72b (land cost Rs2.7m/acre and Rs5.7m/acre development cost).
- Around 32 consortiums formed by over 100 global and Indian companies, had filed for the request for qualification (RFQ). Of this, only 24 consortiums finally qualified. However, DLF was the sole bidder for the project toward the final stages.
- DLF is likely to receive close to ~2,200 acres of land (already in government possession), while the remaining would be available by 1HCY08 (notification yet to be issued). As per the acquisition clause of the BMRDA, DLF has to develop the entire landbank within five years, from the date of acquisition of the entire landbank, which would be challenging

- The total development area of the project stands at ~5,935acres, while the total saleable area is ~2,968acres or ~250msf (assuming FSI of 2.5). The development plans for the township stands at ~125msf residential, ~100msf industrial (including IT/ITES parks) and ~25msf commercial /retail.

NAV accretion from new acquisitions

We estimate the following new acquisitions by DLF, post listing, to account for Rs261b addition to GAV, an increase in DLF's GAV by ~16%. Our assumptions and details of other particular appear in the table below.

NAV ACCRETION FROM RECENT LAND BANK ADDITTION

PROJECT	LOCATION	CATEGORY	AREA MSF	% OF DEV PLANS	EXPEC-TED LAUNCH	REALI-ZATION RS/SFT	COST RS/SFT	GROSS MARGIN RS/SFT	GROSS MARGIN RS M	GAV RS M	% OF GAV RS M
Bidadi	Bangalore	Residential	62.5	8.5	FY10	2,400	1,200	1,200	75,000	41,313	2.5
		Institution/ITES	50.0	6.8	FY09	1,600	300	1,300	65,000	70,560	4.3
		Commercial	6.3	0.8	FY10	4,000	1,500	2,500	15,625	11,204	0.7
		Retail	6.3	0.8	FY10	4,421	2,200	2,221	13,882	5,492	0.3
Total			**125.0**	**16.9**					**169,507**	**128,569**	**7.9**
DCM Sriram	Delhi	Residential	5.0	0.7	FY09	9,000	2,000	7,000	35,000	21,317	1.3
		Commercial	3.0	0.4	FY09	14,667	2,250	12,417	37,250	21,850	1.3
		Retail	2.0	0.3	FY09	17,684	3,000	14,684	29,368	25,371	1.5
Total			**10.0**	**1.4**					**101,618**	**68,538**	**4.2**
TIDEL	Chennai	IT SEZ	6.0	0.8	FY09	6,000	1,550	4,450	26,700	37,897	2.3
Total			**6.0**	**0.8**					**26,700**	**37,897**	**2.3**
International Convention Centre	Delhi	Retail	1.0	0.1	FY11	31,579	5,000	26,579	26,579	20,496	1.3
Total			**1.0**	**0.1**					**26,579**	**20,496**	**1.3**
Hyderabad	Hyderabad	IT Park	4.1	0.6	FY09	6,000	1,500	4,500	18,377	5,614	0.3
Total			**4.1**	**0.6**					**18,377**	**5,614**	**0.3**
Grand Total			**146.1**	**19.8**						**261,115**	**15.9**

Source: Company/Motilal Oswal Securities

Historical landbank only ~6.7% of its total landbank

Contrary to popular perception that DLF's high profitability is on account of its historical landbank, management indicated that only its landbank in Gurgaon, Phase V of ~50msf (6.7% of its landbank) is historical, while the remaining landbank has been acquired over the last 3-4 years (average cost: Rs350/sf). Hence the management believes that the current margins are sustainable even after the company exhausts its entire historical landbank.

Hotels, SEZs: Emerging growth drivers

We believe that going forward, DLF will invest sizeable amounts of capital in hotels and SEZ segments, which again provide interesting value maximization opportunities. Management has indicated they would provide more clarity on these plans at end-3QFY08. In our NAV, we have not assigned any value to these ventures, as they continue to be in the preliminary stages.

Hotels: DLF has drawn up plans to have 25,000 rooms in the luxury (5,000) and business segments (20,000) across India, which would make the portfolio one of the largest in the country. For the joint venture with Hilton, targeted towards the business segment, categorization has been completed for 18 hotel sites (6,800 rooms) and construction is expected to start shortly. In this regard, hotel projects at New Delhi, Kolkata, Chennai, Bangalore, Mysore, Bhubneshwar, Kochi and Hyderabad are at advanced stage of design and development. The management has guided for ~4000hotel rooms being operation by 2010, under luxury and business segments and hopes to have the first business hotel operational by 3QFY09 in Delhi.

For the super luxury segment (9 hotel sites), the company is in the process of identifying joint venture partners and is expected to be finalized by end-FY09. DLF is also in the process of setting up 5 convention centers at Delhi, Goa, Jaipur, Kolkatta and Chandigarh, which will make the company the largest convention centre operator in India. DLF will have the first super luxury hotel in Gurgaon operational by 3QFY09 under the Four Season brand.

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 50:50 JV. The management has indicated that the land acquisition on the initial 2 projects (20,000 acres each in Gurgaon and Goa) have commenced. The management has indicated that land acquisitions would commenced from 3QFY08 onwards.

In our NAV, we have not assigned any value to these ventures, as they continue to be in preliminary stages. However, as these verticals develop and more clarity emerges, we expect these verticals to add significantly to DLF's NAV.

Robust 2QFY08 results

DLF reported robust 2QFY08 results with revenues at Rs32.5b and net profit at Rs20b. During 2QFY08, sales to DLF Asset Ltd. (DAL) which stood at Rs13b, contributed around Rs9.8b to PBT. EBITDA margin stood at 69.7% on the back of higher contribution from commercial offices. Lower tax provisioning of 14% boosted PAT to Rs20b. Total asset sales to DAL was at ~2msf; total sales/lease in 2QFY08 was at ~4msf.

Delivery schedule on track: DLF is on track to meet its aggressive delivery schedule of ~16msf of completed real estate assets across verticals in FY08 and around 23msf in FY09. It aims to further scale up its current under construction projects from ~50-55msf to ~70-75msf by FY09.

Commercial office: Current pre-lease run rate at 1msf pm

DETAILS OF SALE TO DAL (2QFY08)

PROJECT NAME	MSF
Gurgaon	0.64
Chennai IT Park	0.09
Hyderabad IT Park	0.86
Total	**1.59**

Source: Company

In 2QFY08, DLF has pre-leased commercial office space of 0.9msf at Gurgaon (0.75msf) and Pune (0.1msf), resulting in cumulative pre-lease of 11.5msf currently. In 2QFY08, DLF sold a total of 1.6msf to DLF Assets, the breakup of which is: at Gurgaon 0.64msf; Chennai, 0.1msf and Hyderabad, 0.9msf. The area under construction now stands at 34.4msf v/s 29.5msf in 1QFY08. In 2QFY08, the company started construction work on 7.1msf of commercial space, while 2.4msf was completed. Weighted average sales rates during 2QFY08 increased by 12% QoQ and stood at Rs6,865/sq ft, while average lease rates increased by 16% QoQ and stood at Rs57/sq ft. The current run rate in terms of lease agreements being signed stands at 12msf p.a.

COMMERCIAL OFFICE: LEASE RENTALS INCREASE 16% QOQ

	1QFY08	2QFY08	CHANGE (%)
Office Space			
Lease/Sales Booked (msf)			
Opening Balance	8.3	11.3	35.6
Add: Lease Booked During Qtr	1.4	0.9	-39.0
Add: Sale Booked During the Qtr	2.9	1.6	-45.0
Total	**4.3**	**2.5**	**-43.0**
Less: Handed Over	1.3	2.2	67.2
Closing Balance	**11.3**	**11.5**	**1.9**
Under Construction			
Opening Balance	25.8	29.5	14.5
New Launched	5.1	7.1	39.8
Handed Over	1.3	2.2	67.2
Closing Balance	**29.6**	**34.4**	**16.5**
For Sale Business			
Wt. Average Rate (Sale Price)	6,131	6,865	12.0
Wt. Avg Land + Const Cost	1,793	1,708	-4.7
For Lease Business			
Average Rate (Lease Rate)	49	57	16.3
Wt. Avg Land + Const Cost	1,923	1,832	-4.7

Source: Company

In the office space, management indicated a shift in customer demand mix from IT/ITES customers toward Indian corporates. This we believe could lead to a sustained increase in demand. The company currently has six notified IT SEZs at Chennai, Hyderabad, Delhi NCR (3 projects) and Mumbai, while six more projects are yet to be notified. In FY08, DLF plans to launch projects in Gujarat, Nagpur and Mumbai that would enhance its geographical offerings.

Retail: Strong booking volumes of 1.1msf during 2QFY08

In the retail segment, DLF has leased 1.1msf during 2QFY08 at the following places: Delhi, 0.9msf and Gurgaon, 0.2msf. The cumulative lease signed currently stands at 4.9msf v/s 3.9msf in 1QFY08. Projects under construction stand at 13.4msf in 2QFY08 v/s 12.9msf in 1QFY08. The company expects completion of its initial projects at Vasant Kunj and Saket Mall by 4QFY08. It expects construction to gather momentum on all three large retail malls post the monsoons - Mall of India, Gurgaon: 5msf, NTC Mills, Mumbai: 1.6 msf, Noida: 1.6msf. Average sales realizations during the quarter dropped 35% QoQ to Rs15,237/sf due to higher contribution from sales of the commercial complex. 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 project launches lined up for 3QFY08 are: DLF Ludhiana Complex and Commercial centre in DLF Phase V Gurgaon.

RETAIL: PROJECTS UNDER CONSTRUCTION (13.4MSF)

	1QFY08	2QFY08	CHANGE (%)
Retail (msf)			
Lease/Sales Booked			
Opening Balance	3.2	3.9	21.9
Add: Lease Booked during Qtr	0.2		
Add: Sale booked during the Qtr	0.1		
Total	**0.3**	**1.1**	**224.2**
Less: Handed Over	0.0	0.0	
Closing Balance	**3.5**	**5.0**	**40.8**
Under Construction			
Opening Balance	11.7	13.0	10.9
New Launched	1.2	0.5	-61.7
Handed Over	0.0	0.0	
Closing Balance	**12.9**	**13.4**	**4.2**
For Sale Business			
Average Rate (Sale Price)	23,292	15,237	-34.6
Wt. Avg Land + Const Cost	5,463	5,375	-1.6
For Lease Business			
Average Rate (Lease Rate)	115	313	172.2
Wt. Avg Land + Const Cost	4,250	7,437	75.0

Source: Company

Residential: Projects launch in mid-income housing from 3QFY08

In 2QFY08, DLF booked sales on 0.1msf in the luxury segment. Of the 6.7msf under construction, 5.4msf has already been sold. The average selling rate in 2QFY08 stands at Rs8,683/sq ft, while the average cost stood at Rs1,617/sq ft, resulting in gross margins of Rs7,012/sq ft.

RESIDENTIAL (MSF): 6.7MSF UNDER CONSTRUCTION

	1QFY08	2QFY08	CHANGE (%)
Total Luxury/Super Luxury Residential (msf)			
Sales Booked			
Opening Balance	4.8	5.3	10.1
Booked during Qtr	0.5	0.1	-77.6
Closing Balance	**5.3**	**5.4**	**2.1**
Under Construction			
Opening Balance	6.7	6.7	0.0
New Launched (Completed)			
Handed Over	0.0	0.0	
Closing Balance	**6.7**	**6.7**	**0.0**
Average Rate (Sale Price)	13,179	8,683	-34.1
Avg Land + Const Cost	2,171	1,671	-23.0

Source: Company

DLF aims to further strengthen its position in the luxury residential segment and plans to launch projects in Goa and Kasauli (Chandigarh) in FY08, Chanakyapuri, Delhi, in FY09 and Tulsiwadi, Mumbai, in FY10. In Gurgaon, the company has plans to sell ~20-25 units/month in this segment. From 3QFY08 onward, DLF plans to initiate focus on the mid-income housing segment via launches in 5 cities, including Bangalore, Chennai, Indore, Lucknow, Kolkata and Cochin. Management believes that its aggressive pricing strategy would redefine the mid-housing segment in India.

MID INCOME GROUP HOUSING: PLANNED LAUNCHES

CITY	TIMELINE
Bangalore	3QFY08
Chennai	3QFY08
Indore	3QFY08
Lucknow	4QFY08
Cochin	4QFY08
Kolkata	4QFY08

Source: Company

Beef up in execution capabilities

In terms of execution, we believe that DLF is better positioned, based on its vast industry experience, larger developed area until date and JVs with strategic partners. We believe that 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. Management plans to enter into more JVs with such international contractors in 2QFY08 for its other verticals. This would provide it with an edge over other developers.

LAUNCH PLANS IN THE RESIDENTIAL VERTICAL (MSF)

	TOTAL	UPTO FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Gurgaon	34	8.7	0.0	2.0	2.0	3.0	3.0	3.0	4.0	4.0	2.3	2.0
New Gurgaon	62	0.0	0.0	2.6	3.6	6.9	8.7	6.1	9.5	7.5	8.7	8.0
Delhi	25	0.0	0.6	1.1	5.5	5.8	5.3	3.3	3.7	0.0	0.0	0.0
Bangalore	149	0.0	0.0	5.9	18.1	19.9	24.5	25.4	15.2	12.2	12.6	14.8
Mumbai	1	0.0	0.0	0.5	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goa	18	0.0	0.0	2.4	3.0	3.8	1.7	1.5	1.5	1.5	1.0	1.1
Chennai	36	0.0	0.0	2.0	2.0	4.0	6.0	6.0	5.0	6.5	3.1	1.5
Hyderabad	6	0.0	0.0	0.0	1.0	1.0	1.0	1.0	1.0	1.1	0.0	0.0
Kolkata	77	0.0	0.0	0.8	3.8	4.5	5.9	8.9	9.8	15.8	16.3	11.3
Others	83	0.0	2.0	6.0	10.2	10.1	9.9	8.5	8.2	7.8	8.4	12.5
Total	**491**	**8.7**	**2.5**	**23.3**	**49.6**	**58.9**	**65.9**	**63.6**	**58.1**	**56.4**	**52.4**	**51.1**

Source: Motilal Oswal Securities

LAUNCH PLANS IN THE COMMERCIAL VERTICAL (MSF)

	TOTAL	UPTO FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Chennai	13	0.0	4.8	1.8	1.3	0.9	1.5	1.5	1.5	0.0	0.0	0.0
Gurgaon	25	3.0	6.4	8.3	5.3	1.8	0.6	0.0	0.0	0.0	0.0	0.0
New Gurgaon	35	0.0	0.0	0.0	3.4	3.4	5.4	5.6	5.1	5.1	5.1	1.7
Noida	6	1.4	0.0	1.3	1.4	1.4	0.4	0.0	0.0	0.0	0.0	0.0
Hyderabad	10	0.0	3.4	0.9	2.5	1.6	2.0	0.0	0.0	0.0	0.0	0.0
Kolkata	11	0.0	1.0	0.5	1.8	2.0	3.0	2.0	1.2	0.0	0.0	0.0
Delhi	7	0.0	1.5	1.5	1.4	0.9	0.9	0.9	0.0	0.0	0.0	0.0
Pune	3	0.0	1.3	1.3	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mumbai	6	0.0	0.2	0.5	0.7	0.7	1.5	2.1	0.0	0.0	0.0	0.0
Ahmedabad	8	0.0	0.0	1.1	1.5	1.3	1.3	1.3	0.7	0.5	0.0	0.0
Bangalore	6	0.0	0.0	0.0	0.3	0.6	0.9	0.9	1.6	1.9	0.0	0.0
Others	10	0.0	0.5	2.4	3.1	2.0	1.2	0.6	0.0	0.0	0.0	0.0
Total	**141**	**4.3**	**19.0**	**19.7**	**23.5**	**16.7**	**18.8**	**14.9**	**10.0**	**7.5**	**5.1**	**1.7**

Source: Motilal Oswal Securities

LAUNCH PLANS IN THE RETAIL VERTICAL (MSF)

	TOTAL	UPTO FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Delhi	6	3.1	0.0	1.0	1.4	0.5	0.4	0.0	0.0	0.0	0.0	0.0
Gurgaon	4	0.4	2.9	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New Gurgaon	37	0.0	0.0	2.3	2.9	5.0	5.0	6.3	8.2	5.0	1.5	0.5
Noida	2	0.0	0.7	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hyderabad	3	0.4	1.1	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kolkata	15	0.0	0.4	0.0	0.2	0.6	0.9	1.7	2.4	2.4	2.9	3.6
Mumbai	2	0.0	0.7	0.9	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chennai	2	0.0	0.0	1.4	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bangalore	9	0.0	0.6	0.9	1.2	0.6	0.9	0.9	1.6	1.9	0.0	0.0
Goa	1	0.0	0.7	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Others	24	0.0	1.7	6.1	8.0	4.7	1.7	1.8	0.0	0.0	0.0	0.0
Total	**106**	**4**	**9**	**16**	**16**	**12**	**9**	**11**	**12**	**9**	**4**	**4**

Source: Motilal Oswal Securities

Strong financial position

As at end-September 2007, DLF had a debt of ~Rs78b and cash of Rs18b, and thus net debt stood at Rs59b. This corresponds to 3.7% of the current market cap of US$39b and 80% of FY08 net profit estimate of Rs74b. Management has indicated that they would maintain a dividend payout of ~20% of profits. Over a longer term, management indicated a target DER of 0.5x for development business and 3x for investment business, which on a blended basis stands at 1x. This provides DLF with strong value creation possibilities, through land bank ageing and integrated development, which is unprecedented.

2QFY08 BALANCE SHEET (RS M)

	1QFY08	2QFY08	FY07
Net Worth	138,178	158,740	35,549
Debt	103,466	77,854	99,327
Cash	94,692	50,766	4,155
Net DER (x)	**0.1**	**0.2**	**2.7**
Sundry Debtors	37,478	38,936	15,057
Net Current Assets (ex Cash)	94,738	89,292	78,117

Source: Company

DAL plans to raise ~US$1.5-US$2b from Singapore's REIT market

DLF Asset Limited (DAL) a promoter group company plans to raise ~US$1.5b-US$2b from the Singapore REIT market, in the near future. Management is confident of being able to raise funds from the Singapore REIT market at low cap rates of ~7% v/s ~9%-11% in India.

Upgrading NAV to Rs656/share

We are upgrading our FY09 NAV target for DLF from Rs539/share to Rs656/share, the key factors driving our NAV upgrade are: (1) new landbank acquisitions; (2) lower cap rate assumptions in the commercial vertical from 9.5% to 9%; and (3) a change in development plans.

We believe DLF, India's largest real estate company, is the best proxy for playing the promising domestic real estate opportunity. We are excited about DLF's dominant presence in emerging segments of premium apartments, commercial offices and retail, which are highly profitable businesses with strong entry barriers. Thus, DLF is relatively better placed to face the challenging macro environment, which, in our opinion, will encourage lower risk premiums going forward.

NAV calculation: Key assumptions

- Our NAV factors in **development plans that will be executed over the next 10 years** (to FY17) **and not the entire land bank.** Out of 738m sq ft of total development plans, **44.3m sq ft** is **spilling beyond FY17,** which we have not factored in our NAV calculations.
- **'NO' price increase in NCR region for apartments during FY08-17 and for commercial and retail during FY08-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 FY08 and FY09.**

- **Occupancy rates of 90%**, both in commercial and retail segments during FY08-FY17.
- **5% CAGR in construction cost** for all verticals during FY08-FY17.
- **Cap rate** of 9% in the commercial vertical and 9.5% in the retail vertical; rent yield of 10%, during FY08-FY17.
- **WACC** of 13.8%, assuming long term targeted DER of 1:1

NAV CALCULATIONS

	(RS M)	NAV/SHARE	% OF NAV	% OF GAV
Residence	**581,329**	**341**	**52**	**36**
Apartment	452,979	266	41	28
Luxury	69,229	41	6	4
Premium	163,634	96	15	10
Mass Housing	220,116	129	20	13
Villas	46,168	27	4	3
Plots	82,182	48	7	5
Commercial	**482,563**	**283**	**43**	**29**
Lease	116,546	68	10	7
Sale	366,017	215	33	22
Retail	**379,588**	**223**	**34**	**23**
Lease	279,637	164	25	17
Sale	99,951	59	9	6
Institutional Plots	89,433	52	8	5
Total	**1,532,913**	**899**	**137**	**94**
Add: Rentals, dev. plots and hotel sites	104,534	61	9	6
Gross Asset Value (GAV)	**1,637,446**	**960**	**146**	**100**
Less: Tax	306,583	180	-27	-19
Add: Cash	44,457	26	4	3
Add: Receivable from DAL	20000	12	2	1
Less: Debt	75,000	44	-7	-5
Less: Land Cost	66,000	39	-6	-4
Less: Operating Exp	137,962	81	-12	-8
Net Asset Value (NAV)	**1,118,010**	**656**	**100**	**68**

Source: Motilal Oswal Securities

RENTALS, DEVELOPED PLOTS AND HOTEL SITES (RS M)

	LOCATION	AREA M SQ FT	RENT PER/MTH RS/SQ FT	RENT RS M	CAP VALUE* RS M
A) Rental Projects					
DLF Centre	Delhi	0.2	175	43	5,670
Corporate Park	Gurgaon	0.0	50	2	288
Gateway Tower	Gurgaon	0.1	50	6	760
Amex Tower (Existing + New)	Gurgaon	0.5	50	25	3,353
GE Plastic	Gurgaon	0.3	5	1	170
Jhandewalan	Gurgaon	0.0	60	3	392
Infinity Tower (Normal Rent)	Gurgaon	1.3	55	72	9,503
Building No. 8	Gurgaon	1.6	55	90	11,997
Total		**4.2**	**58**	**242**	**32,134**
B) Residential plots 7.2 msq ft in Gurgaon @ Rs7,000/sq ft					50,400
C) Hotel Sites (22 + 1 Luxury Site)					22,000
Grand Total					**104,534**

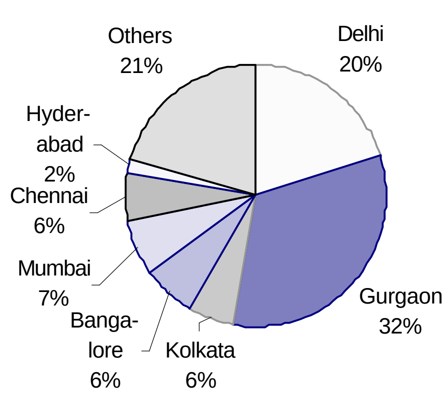
**Assumed cap rate of 9%, being completed projects* *Source: Motilal Oswal Securities*

CITY-WISE NAV BREAK-UP (RS M)

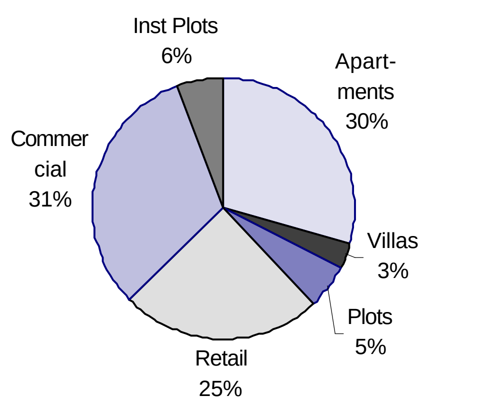
	APARTMENTS	VILLA	PLOTS	COMMERCIAL	RETAIL	INST PLOTS	TOTAL	% OF GAV	PER/ SHARE
Delhi	147,344			61,084	96,315		304,742	20	179
Gurgaon	130,752	275	14,221	231,833	77,737	14,302	469,121	31	275
Mumbai	16,916			53,019	38,517		108,453	7	64
Noida				17,687	15,994		33,681	2	20
Chennai	43,037			30,732	14,500		88,268	6	52
Kolkata	19,193	12,921	14,252	22,102	15,925	4,186	88,580	6	52
Bangalore	60,669	8,831	10,861		18,956		99,317	6	58
Hyderabad			4,949	4,295	16,456		25,700	2	15
Pune				7,353			7,353	0	4
Chandigarh	9,288	8,103	3,690	4,854	5,860	384	32,179	2	19
Goa	12,787	3,319	4,943	6,587	4,353		31,989	2	19
Nagpur		8,005		4,707			12,712	1	7
Panvel			14,527				14,527	1	9
Shimla		2,318					2,318	0	1
Indore				1,144	1,152		2,296	0	1
Others	12,993	2,396	14,739	37,166	73,823	70,561	211,678	14	124
Total	**452,979**	**46,168**	**82,182**	**482,563**	**379,588**	**89,433**	**1,532,913**	**100%**	**899**

Source: Motilal Oswal Securities

CITY-WISE GAV ANALYSIS



VERTICAL-WISEGAV ANALYSIS



Source: Motilal Oswal Securities

NAV calculations: What we have not considered

Over estimated NAV of Rs656 does not factor in the development plans spilling beyond FY17 (44m sq ft), value creation possible from various JVs, and plans for SEZs.

A) Development plans spilling beyond FY17 (44.3m sq ft)

- Plots 17.8m sq ft (Panvel 9.8m sq ft, Chandigarh 2.1m sq ft and Bangalore 5.9m sq ft)
- Apartments 21m sq ft (Ph VI-IX, Gurgaon)
- Retail 5.5m sq ft (Dankuni, Kolkata)

B) Value creation possible from JVs

- **Hotels:** Hilton (DLF's stake 74%), Luxury hotels (5,000 rooms)
- **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 2,500 acres multi-product SEZ 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)
- **Telecom**

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. Since the RHP, ~2,800 acres have been added to the land bank, primarily on the outskirts of large cities. Also, DLF in its first prospectus dated May 2006, had stated its land bank to be around 4,265 acres and total development area at 228msf, which increased to 612msf in July 2007, and has consequently increased to 738 msf in September 2007. 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, SEZs: emerging growth drivers:** We believe that going forward, DLF will invest sizeable amounts of capital in hotels and SEZ segments, which again provide interesting value maximization opportunities. Management has indicated they would provide more clarity on these plans at end-2QFY08. In our NAV, we have not assigned any value to these ventures, as they continue to be in preliminary stages.

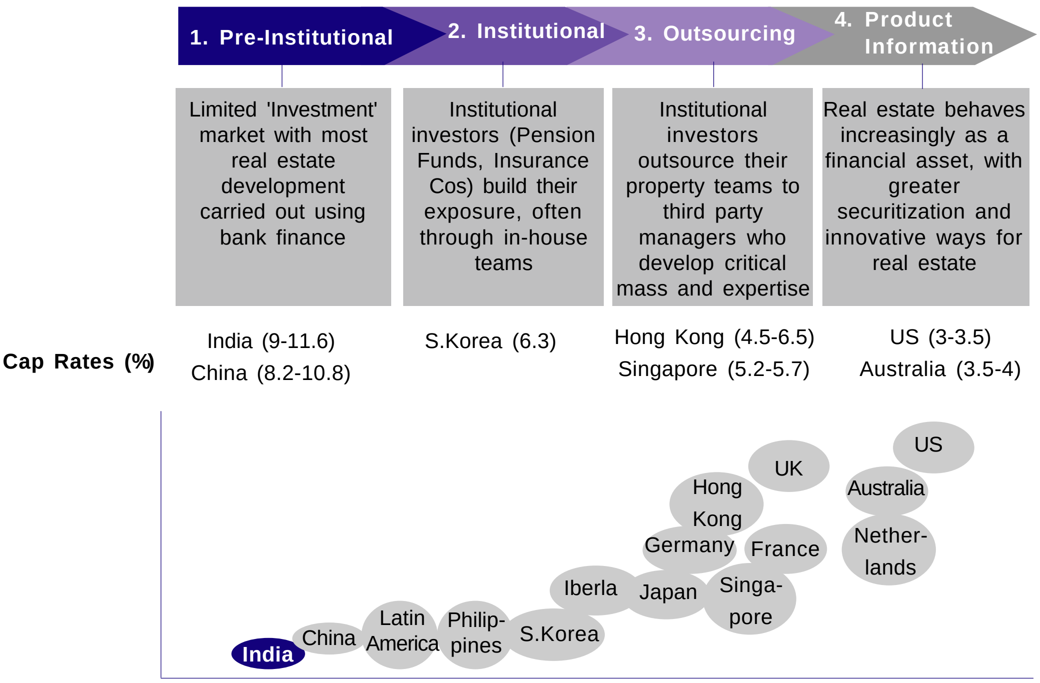
   Hotels: DLF has drawn up plans to have 25,000 rooms in the luxury and business segments across India, which would make the portfolio one of the largest in the country. For the joint venture with Hilton, targeted towards the business segment, categorization has been completed for 18 hotel sites (6,800 rooms) and construction is expected to start shortly. For the super luxury segment (9 hotel sites), the company is in the process of identifying joint venture partners and is expected to be finalized by end-FY08. Further, for 36 hotel sites (12,000 rooms), DLF is in the process of evaluating the category and positioning to ascertain the right branding and product mix. Apart from this, DLF is in the process of setting up 5 convention centers at Delhi, Goa, Jaipur, Kolkatta and Chandigarh, which will make the company the largest convention centre operator in India.

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 50:50 JV. The management has indicated that the land acquisition on the initial 2 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). The management has indicated that from 3QFY08 end onwards they would start acquiring land for the planned SEZ's.

3) **DLF could benefit from cap rate compression in the long term**
Besides benefiting from growing sales volume and rental revenue, cap rate compressions for the high-quality investment properties in prime locations could also bring in NAV appreciation for Indian real estate developers, particularly DLF. Such cap rate compression has taken place in USA, Singapore and Hong Kong in the past. **In our NAV calculations, we have not factored in any cap rates compression going forward.**

Currently, for USA, Singapore and Hong Kong, investors are willing to acquire and value investment properties with cap rates of 4-6%. However, for India, the market is still typically using cap rates of 9-13%, to value investment properties. We argue this gap will continue to shrink going forward because the expected future rental growth in India is stronger, given the robust GDP growth. Further, most of the lease transactions in India encompass a nine year agreement, with a 15% increase in the lease premium at the end of every third year; which is not the case for many of these countries. Thus, the effective returns to investors in Indian property transactions work out to 13- 17% v/s 3-4% in USA, 5-6% in Singapore and 6.5-8.5% in Hong Kong.

IMPROVED MARKET MATURITY LEADS TO LOWER CAP RATES



Source: Motilal Oswal Securities

In our view, cap rates are determined by two key variables: 1) risk-free interest rates and 2) future rental growth potential. Risk-free interest rate is a measure of the cost of funding for making an investment, and so the higher the risk-free interest rate is, the higher the required rental yield or the cap rate for an investment property should be. On the other hand, cap rates should be inversely related to future rental growth potential. This means that higher the future rental growth potential, the lower the current required yield or cap rate an investor is willing to accept upfront for an investment property. Currently, for USA, Singapore and Hong Kong, investors are willing to acquire and value investment properties with cap rates of 4-6%. However, for India, the market is still typically using cap rates of 9-13%, to value investment properties. We argue this gap will continue to shrink going forward because the expected future rental growth in India is stronger, given the robust GDP growth. Further, most of the lease transactions in India encompass a nine year agreement, with a 15% increase in the lease premium at the end of every third year; which is not the case for many of these countries. Thus, the effective returns to investors in Indian property transactions work out to 13- 17% v/s 3-4% in USA, 5-6% in Singapore and 6.5-8.5% in Hong Kong.

Increasing estimates

We are increasing our PAT and revenue estimates to account for new project acquisitions, lower cap rates and change in development plans. Consequently, we are increasing our revenue estimates for FY08, FY09 and FY10 by 23%, 47% and 25% respectively. Similarly we are also increasing our net profit estimates for FY08, FY09 and FY10 by 24%, 17% and 15% respectively. The table below depicts our estimate changes for revenues and net profit.

REVISED ESTIMATES (RS M)

	FY08E	FY09E	FY10E
Revenues			
Old	113,096	123,327	142,078
New	138,926	180,882	176,948
Change (%)	*22.8*	*46.7*	*24.5*
PAT			
Old	59,563	71,184	80,024
New	74,030	83,207	91,785
Change (%)	*24.3*	*16.9*	*14.7*

Source: Motilal Oswal Securities

Maintain Buy

We estimate DLF's revenue to increase from Rs39.4b in FY07 to Rs177b in FY10, a CAGR of 65%. This strong growth would be primarily driven by rise in production volumes (and deliveries) across verticals and increasing rental income. We are upgrading our FY09 NAV target for DLF from Rs539/share to Rs656/share. The key factors driving our NAV upgrade are: (1) new landbank acquisitions; (2) lower cap rate assumptions in the commercial vertical from 9.5% to 9%; (3) a change in development plans.Our target price for DLF at Rs820/share is based on a 25% premium to its FY09 NAV of Rs656/share. Our current NAV, does not include upside from: (1) plans for 25,000 rooms, over the next 4-5 years in the hotels vertical; (2) plans for two mega SEZs, and (3) value maximization possibilities from several JVs and subsidiaries in the construction, insurance, entertainment and infrastructure space, as most of these businesses and ventures are still in the preliminary stage. These businesses represent significant value unlocking possibilities. Maintain **Buy.**

INCOME STATEMENT					(RS MILLION)
Y/E MARCH	**2006**	**2007**	**2008E**	**2009E**	**2010E**
Net Sales	**11,867**	**39,419**	**138,926**	**180,882**	**176,948**
Change (%)	*91.9*	*232.2*	*252.4*	*30.2*	*-2.2*
Construction expenses	5,243	7,090	41,065	64,417	48,667
Office & site establi. exps	397	922	6,643	8,204	7,429
EBITDA	**5,088**	**28,220**	**91,218**	**108,262**	**120,852**
% of Net Sales	*42.9*	*71.6*	*65.7*	*59.9*	*68.3*
Depreciation	361	571	616	887	1,066
Interest	1,685	3,076	2,500	2,250	1,500
Other Income	553	922	2,223	5,677	8,088
PBT	**3,595**	**25,495**	**90,325**	**110,802**	**126,374**
Tax	1,668	6,058	16,295	27,596	34,589
Rate (%)	*46.4*	*23.8*	*18.0*	*24.9*	*27.4*
Reported PAT	**1,927**	**19,437**	**74,030**	**83,207**	**91,785**
Change (%)	*119.2*	*908.7*	*280.9*	*12.4*	*10.3*

BALANCE SHEET					(RS MILLION)
Y/E MARCH	**2006**	**2007**	**2008E**	**2009E**	**2010E**
Equity Capital	379	3,059	3,410	3,410	3,410
Preference Capital	0	9,498	0	0	0
Reserves	9,123	27,115	169,672	227,089	291,127
Net Worth	**9,502**	**39,672**	**173,082**	**230,498**	**294,537**
Loans	41,320	99,328	75,000	50,000	40,000
Deffered Tax Liability	92	187	0	0	0
Capital Employed	**50,914**	**139,187**	**248,082**	**280,498**	**334,537**
Goodwill	8,489	8,935	8,935	8,935	8,935
Gross Fixed Assets	13,023	17,787	39,323	84,992	127,328
Less: Depreciation	1,891	2,412	3,028	3,915	4,981
Net Fixed Assets	**11,132**	**15,375**	**36,295**	**81,077**	**122,347**
Capital WIP	5,911	26,497	96,450	95,517	112,174
Investments	8,300	2,107	2,107	2,107	2,107
Curr. Assets	**35,604**	**128,702**	**151,251**	**150,801**	**201,258**
Debtors	6,580	15,195	18,199	22,476	20,355
Cash & Bank Balance	1,950	4,155	44,457	113,549	161,760
Loans & Advances	10,642	52,279	88,252	10,899	7,403
Current Liab. & Prov.	**18,522**	**42,429**	**38,021**	**49,004**	**103,350**
Creditors	0	0	21,726	21,408	68,761
Provisions	0	0	16,295	27,596	34,589
Net Current Assets	**17,082**	**86,273**	**113,230**	**101,797**	**97,909**
Application of Funds	**50,914**	**139,187**	**248,082**	**280,498**	**334,537**

E: MOSt Estimates; #Fifteen months ended Mar 2006

RATIOS					(RS MILLION)
Y/E MARCH	**2006**	**2007**	**2008E**	**2009E**	**2010E**
Basic (Rs)					
Adjusted EPS	**8.1**	**12.7**	**43.4**	**48.8**	**53.8**
Growth (%)	*-87.5*	*56.2*	*241.7*	*12.4*	*10.3*
Cash EPS	28.1	30.8	96.6	111.8	124.1
Book Value	50.1	25.9	101.5	135.2	172.8
DPS	0.0	1.3	8.7	9.8	10.8
Payout (incl. Div. Tax.)	0.0	10.0	20.0	20.0	20.0
Valuation (x)					
P/E (standalone)		72.0	21.4	19.1	17.3
Cash P/E		29.7	9.6	8.3	7.5
EV/EBITDA		58.7	17.7	14.1	12.1
EV/Sales		42.0	11.6	8.4	8.3
Price/Book Value		35.3	9.2	6.9	5.4
Dividend Yield (%)		0.1	0.9	1.0	1.2
Profitability Ratios (%)					
RoE	16.2	49.0	42.8	36.1	31.2
RoCE	12.2	30.0	47.9	42.8	41.6
Leverage Ratio					
Debt/Equity (x)	4.3	2.5	0.4	0.2	0.1

CASH FLOW STATEMENT					
Y/E MARCH	**2006**	**2007**	**2008E**	**2009E**	**2010E**
PBT before Extraordinary I	**3,595**	**25,495**	**90,325**	**110,802**	**126,374**
Add : Depreciation	361	571	616	887	1,066
Interest	1,685	3,076	2,500	2,250	1,500
Less : Direct Taxes Paid	1,668	6,058	16,295	27,596	34,589
(Inc)/Dec in WC	-16,545	-67,432	22,281	80,524	52,100
CF from Operations	**-12,572**	**-44,348**	**99,427**	**166,868**	**146,451**
(Inc)/Dec in FA	-7,194	-25,400	-91,489	-44,736	-58,993
(Pur)/Sale of Investments	-7,900	6,193	0	0	0
CF from Investments	**-15,094**	**-19,207**	**-91,489**	**-44,736**	**-58,993**
(Inc)/Dec in Networth	-767	13,044	76,072	-6,819	-6,819
(Inc)/Dec in Debt	31,644	58,008	-24,328	-25,000	-10,000
Less : Interest Paid	1,685	3,076	2,500	2,250	1,500
Dividend Paid	0	2,216	16,879	18,971	20,927
CF from Fin. Activity	**29,192**	**65,760**	**32,365**	**-53,040**	**-39,246**
Inc/Dec of Cash	**1,526**	**2,205**	**40,303**	**69,091**	**48,212**
Add: Beginning Balance	424	1,950	4,155	44,457	113,549
Closing Balance	**1,950**	**4,155**	**44,458**	**113,549**	**161,760**

N O T E S

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