



# The Monarch

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DLF

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 14,964 | DLFU IN      |
| S&P CNX: 4,385     | REUTERS CODE |
|                    | DLF.BO       |

6 July 2007

Buy

Initiating Coverage

Rs574

| Y/E MARCH      | 2007 | 2008E | 2009E | 2010E |
|----------------|------|-------|-------|-------|
| Sales (Rs b)   | 39   | 113   | 123   | 142   |
| EBITDA (Rs b)  | 28   | 73    | 88    | 105   |
| NP (Rs b)      | 19   | 60    | 71    | 80    |
| EPS (Rs)       | 12.7 | 35.0  | 41.8  | 47.0  |
| EPS Growth (%) | 56.2 | 175.1 | 19.5  | 12.4  |
| BV/Share (Rs)  | 25.9 | 95.0  | 123.3 | 155.5 |
| P/E (x)        | 44.9 | 16.3  | 13.7  | 12.1  |
| P/BV (x)       | 22.0 | 6.0   | 4.6   | 3.7   |
| EV/EBITDA (X)  | 37.8 | 13.6  | 9.8   | 7.8   |
| EV/ SALES (X)  | 27.1 | 8.8   | 7.0   | 5.8   |
| RoE (%)        | 49.0 | 36.8  | 33.9  | 30.2  |
| RoCE (%)       | 30.0 | 43.4  | 45.3  | 46.7  |

**Uniquely positioned in emerging, profitable segments:** DLF has a sizable presence across several key cities (Delhi NCR, Mumbai, Bangalore, Chennai, Kolkata, Chandigarh, Goa etc) and clear market leadership position in commercial, retail, and lifestyle/premium apartments. These segments are highly profitable and have significant entry barriers. We estimate DLF's market share at ~16% in commercial offices and ~8% in retail space absorption in India over the next 2 years.

**Better placed to face the macro challenges:** Commercial, retail, luxury and premium housing account for 67% of DLF's estimated Gross Asset Value (GAV). Middle income housing segment accounts for just 24% of DLF's GAV (56% of the development area). This segment is more susceptible to emerging macro concerns and challenges, and thus even 50% lower absorption v/s estimates would impact GAV by ~11%.

**Net cash and cash equivalents of Rs312b in FY10:** Adjusting for securitized value of lease rentals, we expect net cash at Rs17.7b in FY08 (v/s net debt of Rs84b in FY07), Rs216b in FY09 and Rs311.8b in FY10. We estimate DLF's adjusted net profit (adjusted for securitized value of lease rentals) to increase from Rs26.6b in FY07 to Rs88.8b in FY08 (up 234%), Rs122.6b in FY09 (up 38%) and Rs124b in FY10 (up 1%). This provides DLF with strong value creation possibilities (through land bank ageing and integrated development), which is unprecedented.

**Recent landbank additions are positive:** DLF's current land bank stands at 13,055 acres (addition of 2,800 acres since filing of RHP) and total developable area at 612m sq ft (addition of 43m sq ft). Recent land bank addition of ~2,800 acres has been done at Rs19.3b (average cost of Rs230/sq ft, assuming FSI of 1x). For DLF, land cost stands at Rs154b, i.e. an average of Rs252/sq ft, which provides competitive advantages.

**Price target Rs674/sh (25% premium to NAV):** Our target price for DLF at Rs674/sh is at 25% premium to our estimated NAV of Rs539/sh. We believe such business models should be valued as going concern and would continue to trade at premiums to NAV.

## KEY FINANCIALS

|                              |         |
|------------------------------|---------|
| Shares Outstanding (m)       | 1,704.8 |
| Market Cap (Rs b)            | 971.7   |
| Market Cap (US\$ b)          | 23.7    |
| Past 2 yrs. Sales Growth (%) | 152.0   |
| Past 2 yrs. NP Growth (%)    | 370     |
| Dividend Payout (%)          | N.A.    |
| Dividend Yield (%)           | N.A.    |

## STOCK DATA

|                                       |         |
|---------------------------------------|---------|
| 52-Week Range (H/L Rs)                | 714/506 |
| Major Shareholders (as of March 2007) | (%)     |
| Promoters                             | 89.8    |
| Non Institutions                      | 3.1     |
| FII/FDIs/Domestic Institution         | 6.1     |
| Public                                | 1.0     |

## Price target Rs674 per share

*DLF best proxy to play  
domestic real estate  
opportunity*

Our target price for DLF at Rs674/share is at a 25% premium to our estimated NAV of Rs539/share. Our target NAV premium for DLF is higher than the target average we would apply for other property development companies.

### Target price is at 25% premium to NAV

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.

### DLF provides the best exposure to all segments of Indian real estate:

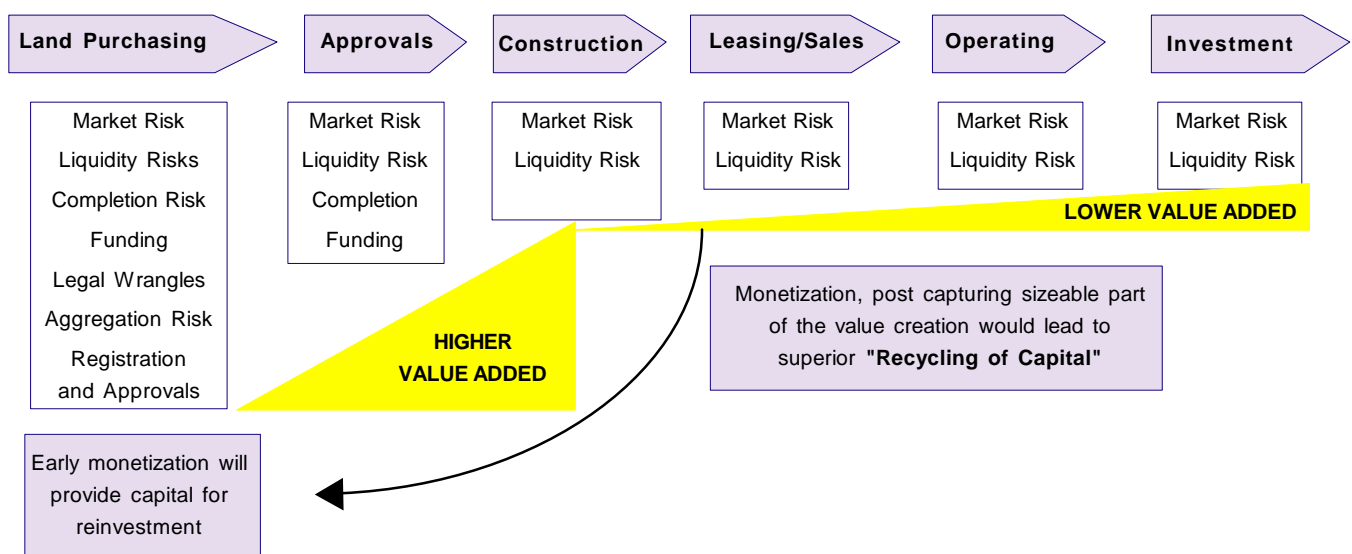
- ✍ DLF has a presence in 31 cities in India - Delhi NCR, Mumbai, Bangalore, Chennai, Kolkata, Chandigarh, Goa etc. Such geographical diversification provides the company with tremendous depth and breadth, and allows it to plug into growth pockets across the country. DLF has the richest quality landbank, with almost 45% of landbank in Tier I cities. Also, almost the entire land bank is within the city master plan, which would enable faster conversion.
- ✍ DLF has a clear market leadership position in commercial, retail, and lifestyle/premium apartments. We estimate DLF's market share at 16% in commercial office and ~8% in retail space absorption over the next two years. With a large development area of 612m sq ft, the company has also drawn plans for a leadership positioning in middle income housing segment.

*Best positioned to create  
value through 'land bank  
ageing' and 'integrated  
development'*

Post the cash flows from the recent IPO, we estimate DLF's net debt at Rs27b in FY08 and net cash of Rs110b in FY09. Adjusting for the securitized value of lease rentals, we estimate net cash at Rs18b in FY08 and Rs216b in FY09. This provides the company with strong financial leveraging possibilities, which is unprecedented. We believe that large companies such as DLF, which have holding power, are best positioned to take large bets by acquiring large tracts of contiguous land, which could create value through 'land bank ageing' and 'integrated development'. We believe this strategy will generate better returns, which would lead to continuous upgrade in NAVs and allow for higher asset turnover.

Successful implementation of monetization strategies will lead to lower capital costs and create conditions for building integrated property business models, comprising property development, re-development, acquisitions, divestitures, leasing and management. Such business models create long-term, value-added ongoing enterprises and they should trade at a premium to NAV. We have, therefore, assigned a 25% premium to our estimated NAV for arriving at a price target of Rs674/sh.

## REAL ESTATE VALUE CHAIN



Source: Motilal Oswal Securities

### NAV of Rs539 per share

*NAV of Rs539/sh is conservative and factors in challenging macro environment*

Our estimated FY09 NAV for DLF is Rs539/share. At the CMP of Rs570/sh, the stock quotes at a 5.8% premium to our estimated NAV. We believe our NAV estimate for DLF is conservative across all parameters: absorption, pricing, occupancy rates, etc, which adequately factors the challenging macro environment.

### NAV Calculation: Key assumptions

- Our NAV factors in **development plans that will be executed over the next 10 years (till FY17) and not the entire land bank**. Out of 612m 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 till 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 9.5% in retail and commercial segments; rent yield of 10%, during FY08-17.
- ✘ **WACC** of 13.8%, assuming long term targeted DER of 1:1

## NAV CALCULATION

|   | (RS M)           | NAV/SHARE  | % OF NAV   | % OF GAV     |
|---|------------------|------------|------------|--------------|
| <b>Residence</b>                                | <b>570,061</b>   | <b>334</b> | 62         | 42           |
| <b>Apartment</b>                                | <b>395,420</b>   | <b>232</b> | <b>43</b>  | <b>29</b>    |
| <i>Luxury</i>                                   | 75,127           | 44         | 8          | 6            |
| <i>Premium</i>                                  | 162,110          | 95         | 18         | 12           |
| <i>Middle income housing</i>                    | 158,183          | 93         | 17         | 12           |
| <b>Villas</b>                                   | <b>103,069</b>   | <b>60</b>  | <b>11</b>  | <b>8</b>     |
| <b>Plots</b>                                    | <b>71,572</b>    | <b>42</b>  | <b>8</b>   | <b>5</b>     |
| <b>Commercial</b>                               | <b>371,368</b>   | <b>218</b> | 40         | 27           |
| - Lease   | 106,463          | 62         | 12         | 8            |
| - Sale  | 264,905          | 155        | 29         | 19           |
| <b>Retail</b>                                   | <b>304,336</b>   | <b>178</b> | 33         | 22           |
| - Lease   | 228,122          | 134        | 25         | 17           |
| - Sale  | 76,215           | 45         | 8          | 6            |
| Institutional Plots                             | 9,488            | 6          | 1          | 1            |
| <b>Total</b>                                    | <b>1,255,253</b> | <b>736</b> | 137        | 92           |
| Add: Rental, Plots, Hotel sites*                | 104,534          | 61         | 11         | 8            |
| <b>Gross Asset Value (GAV)</b>                  | <b>1,359,787</b> | <b>798</b> | <b>148</b> | <b>100</b>   |
| Less: Tax                                       | 271,957          | 160        | -30        | -20          |
| Add: Cash                                       | 91,875           | 54         | -10        | -7           |
| Add: Receivable from DAL                        | 5,000            | 3          | -1         | 0            |
| Less: Debt                                      | 99,328           | 58         | -11        | -7           |
| Less: Land Cost                                 | 55,000           | 32         | -6         | -4           |
| Less: Operating Exp                             | 112,973          | 66         | -12        | -8           |
| Less: Working Capital Changes                   | -1,651           | -1         | 0          | 0            |
| <b>Net Asset Value (NAV)</b>                    | <b>919,055</b>   | <b>539</b> | <b>100</b> | <b>68</b>    |
| <b>Share Price (Rs)</b>                         |                  |            |            | <b>574</b>   |
| <b>Premium/Discount to NAV (%)</b>              |                  |            |            | <b>5</b>     |
| <b>Implied Net Asset Value per sq feet (Rs)</b> |                  |            |            | <b>1,502</b> |
| <b>Implied Net Asset Value per acre (Rs m)</b>  |                  |            |            | <b>70</b>    |

\*Workings on page 7

Source: Motilal Oswal Securities

## RENTALS, DEVELOPED PLOTS AND HOTEL SITES (RS M)

|  | LOCATION | AREA<br>M SQ FT | RENT PER/MTH<br>RS/SQ FT | RENT<br>RS M | CAP VALUE*<br>RS M |
|--|----------|-----------------|--------------------------|--------------|--------------------|
| <b>A) Rental Projects</b>                                  |          |                 |                          |              |                    |
| 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             |
| <b>Total</b>   |          | <b>4.2</b>      | <b>58</b>                | <b>242</b>   | <b>32,134</b>      |
| B) Residential plots 7.2 msq ft in Gurgaon @ Rs7,000/sq ft |          |                 |                          |              | 50,400             |
| C) Hotel Sites (22 + 1 Luxury Site)                        |          |                 |                          |              | 22,000             |
| <b>Grand Total</b>   |          |                 |                          |              | <b>104,534</b>     |

\*Assumed cap rate of 9%, being completed projects

Source: Motilal Oswal Securities

**Rentals, developed plots and hotel sites:** The following properties and assets are not included in the stated development plans of 612m sq ft:

- ✍ 4.2m sq ft of rental office space in Delhi/Gurgaon, earning rent of Rs242m per month. At a cap rate of 9.5%, the capitalized value of this income stream stands at **Rs32b**.
- ✍ 7.2m sq ft of plots, which are developed, but unsold in Gurgaon. At Rs7,000/sq ft, realizable value of these plots stands at **Rs50.4b**.
- ✍ 22 hotel sites and one luxury hotel site, which are transferred to the joint venture with Hilton. The market value of these sites stands at **Rs22b**.

## CITY-WISE GROSS ASSET VALUE (GAV) ANALYSIS

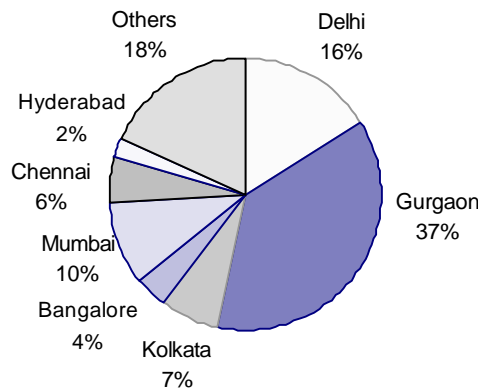
|              | APARTMENTS     | VILLAS         | PLOTS         | COMMERCIAL     | RETAIL         | INST PLOTS   | TOTAL            | % OF GAV   | PER SHARE  |
|--------------|----------------|----------------|---------------|----------------|----------------|--------------|------------------|------------|------------|
| Delhi        | 131,925        |                |               | 31,515         | 40,344         |              | 203,784          | 16         | 120        |
| Gurgaon      | 129,221        | 59,673         | 14,221        | 166,323        | 57,224         | 4,932        | 431,593          | 34         | 253        |
| Mumbai       | 16,916         |                |               | 66,116         | 38,438         |              | 121,470          | 10         | 71         |
| Noida        |                |                |               | 17,687         | 15,930         |              | 33,617           | 3          | 20         |
| Chennai      | 43,037         |                |               | 12,867         | 14,474         |              | 70,378           | 6          | 41         |
| Kolkata      | 19,846         | 12,519         | 14,234        | 20,658         | 15,925         | 4,174        | 87,357           | 7          | 51         |
| Bangalore    | 19,366         | 7,640          | 7,227         |                | 13,747         |              | 47,980           | 4          | 28         |
| Hyderabad    |                |                | 4,949         | 7,641          | 15,995         |              | 28,585           | 2          | 17         |
| Pune         |                |                |               | 8,572          |                |              | 8,572            | 1          | 5          |
| Chandigarh   | 9,288          | 7,469          | 3,944         | 4,522          | 5,860          | 383          | 31,465           | 3          | 18         |
| Goa          | 12,817         | 3,319          | 4,943         | 6,070          | 4,353          |              | 31,503           | 3          | 18         |
| Nagpur       |                | 7,753          |               | 4,357          |                |              | 12,110           | 1          | 7          |
| Panvel       |                |                | 8,603         |                |                |              | 8,603            | 1          | 5          |
| Shimla       |                | 2,300          |               |                |                |              | 2,300            | 0          | 1          |
| Indore       |                |                |               | 1,056          | 1,152          |              | 2,208            | 0          | 1          |
| Others       | 13,003         | 2,396          | 13,451        | 23,984         | 80,895         | 0            | 133,729          | 1          | 78         |
| <b>Total</b> | <b>395,420</b> | <b>103,069</b> | <b>71,572</b> | <b>371,368</b> | <b>304,336</b> | <b>9,488</b> | <b>12,55,253</b> | <b>100</b> | <b>736</b> |

Source: Motilal Oswal Securities

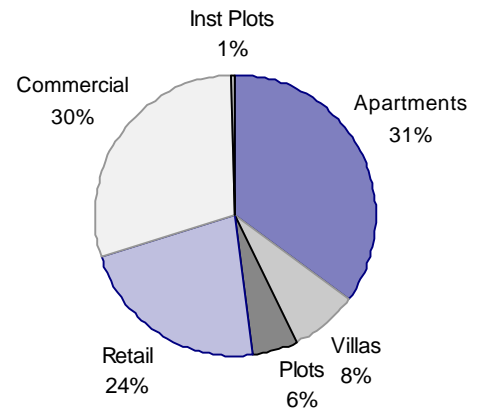
*NCR accounts for 53% of Gross Asset Value (GAV) and 42% of development area*

NCR accounts for 53% of the GAV, and 42% of the development area. Of this, Delhi accounts for 27.6m sq ft of development area (4.5% of total) and 16% of GAV. Development area for Gurgaon stands at 209m sq ft (34% of total) and accounts for 34% of GAV. Mumbai accounts for 1.8% of development area and 10% of GAV, Kolkata accounts for 17.1% of development area and 7% of GAV.

CITY-WISE GAV



VERTICAL-WISE GAV



Source: Motilal Oswal Securities

### NAV calculations: What we have not considered

Over estimated NAV of Rs539 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%)
- ✗ **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 Harayana State Industrial and Infrastructure Development Corporation (HSIIDC)



## NAV Sensitivity

### Base NAV (Rs539/sh)

- ✂ **Construction cost:** + 5% = Rs528/sh (-2%), -5% = Rs550/sh (+2%)
- ✂ **Realization:** - 5% = Rs502/sh (-6.8%), +5% = Rs574/sh (+6.5%)
- ✂ **WACC:** +100bp = Rs515/sh (-4.5%), -100bp = Rs565/sh (+4.8%)

Note: Sensitivity for construction cost and realizations are based on 5% variance, as compared to our estimates

### Other Sensitivities: Changes to NAV from

- ✂ **5% price CAGR in NCR (post FY09):** Residential - Rs36/sh, Retail - Rs8/sh, Commercial - Rs18/sh. Thus, 5% price CAGR (post FY09) will result in NAV of **Rs601/sh (+Rs62/sh)**
- ✂ **5% increase in prices during FY09:** Residential - Rs17/sh, Retail - Rs8/sh, Commercial - Rs11/sh. Thus, 5% price CAGR (during FY09) will result in NAV of **Rs575/sh (+Rs36/sh)**
- ✂ **Occupancy rates of 95% in commercial and retail (v/s 90% assumed):** Retail - Rs7/sh, Commercial - Rs4/sh. Thus, 500bp increase in occupancy rates will result in NAV of **Rs550/sh (+Rs11/sh)**
- ✂ **Cap rates of 9.0% (v/s 9.5% assumed):** Retail - Rs8/sh, Commercial - Rs3/sh. Thus, 50bp decline in cap rates will result in NAV of **Rs550/sh (+Rs11/sh)**

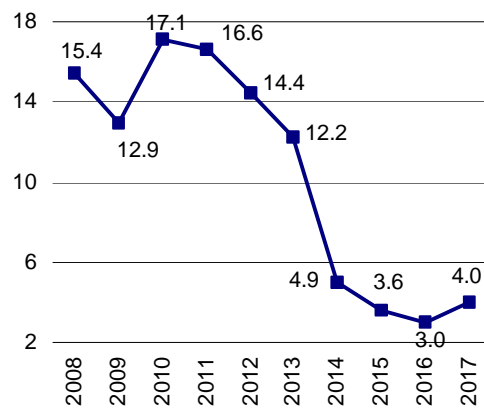
## NAV upgrades to be driven by change in development plans and land bank augmentation

**A) Changes in development plans:** Of the total development area of 612m sq ft, conversion use for ~60% of the land bank is still to be acquired. Thus the end-use in terms of commercial office, retail and residential can be decided at a later date, to maximize value. Current indicative development plan states area under residential as 437m sq ft (71.4% of total), while for commercial is 110m sq ft (18.0%) and retail at 65m sq ft (10.6%). There exists a strong probability that going forward, part of the development area from middle income group housing (56% of total) would be shifted towards premium apartments, commercial office and retail, which is not captured in the current NAV calculations.

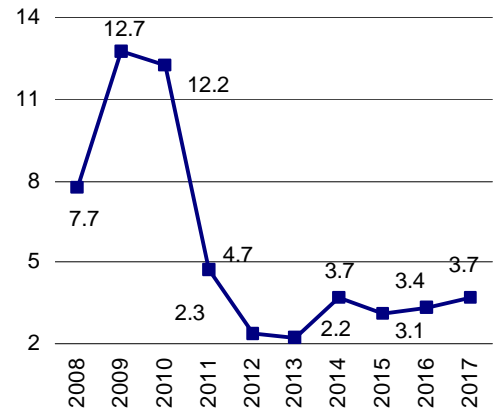
Our current estimated NAV assumes launch of commercial office to peak at 17.2m sq ft in FY10 and retail at 12.7m sq ft in FY09. We believe that going forward, as the development plan changes to incorporate higher proportion of commercial office and retail segment, there would be NAV upgrades.

*Our estimates factor in deceleration in launch of commercial properties. Augmentation will drive NAV upgrades, going forward*

DLF COMMERCIAL LAUNCH PLANS (M SQ FT)



DLF RETAIL LAUNCH PLANS (M SQ FT)



Source: Motilal Oswal Securities

**B) 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 228m sq feet, which in a short duration of around one year has increased to 13,055 acres and 612m sq feet of development plans.

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.

STRONG FINANCIALS PROVIDES VALUE CREATION OPPORTUNITY, THROUGH LAND BANK AGEING (RS M)

| Y/E MARCH                  | 2007       | 2008E     | 2009E      | 2010E      | 2011E      | 2012E      |
|----------------------------|------------|-----------|------------|------------|------------|------------|
| Adjusted Profits *         | 26,630     | 88,892    | 122,611    | 124,268    | 204,642    | 173,270    |
| <b>Rs /share</b>           | <b>16</b>  | <b>52</b> | <b>72</b>  | <b>73</b>  | <b>120</b> | <b>102</b> |
| Net Cash / Cash Equivalent | -83,578    | 17,712    | 216,071    | 311,894    | 499,395    | 687,974    |
| <b>Rs/share</b>            | <b>-49</b> | <b>10</b> | <b>127</b> | <b>183</b> | <b>293</b> | <b>404</b> |

\* Post tax, assuming securitization of lease rentals at cap rates of 10%

\* Net of debt, cash equivalent assumes securitization of lease rentals at cap rates of 10%

Source: Motilal Oswal Securities

Adjusting for securitized value of lease rentals, we expect net cash (including cash equivalents) at Rs18b in FY08 (vs net debt of Rs84b in FY07), Rs216b in FY09 and Rs312b in FY10. We estimate DLF's adjusted net profit (adjusted for securitized value of lease rentals) to increase from Rs26.6b in FY07 to Rs89b in FY08 (up 234%), Rs123b in FY09 (up 38%) and Rs124b in FY10 (up 1%).

This provides the company with strong financial leveraging possibilities, which is unprecedented. We believe that large companies such as DLF, which have holding power, are best positioned to take large bets by acquiring large tracts of contiguous land, which could create value through 'land bank ageing' and 'integrated development'. We believe that this strategy will generate better returns, which would lead to continuous upgrade in NAVs and allow for higher asset turnover.

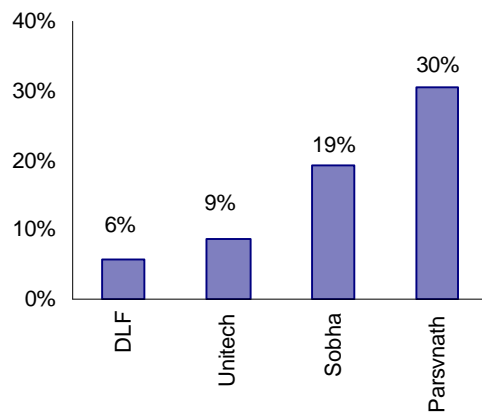
#### **DLF has one of the best financial positions among Indian developers**

*Land cost outstanding is 6% of market capitalization*

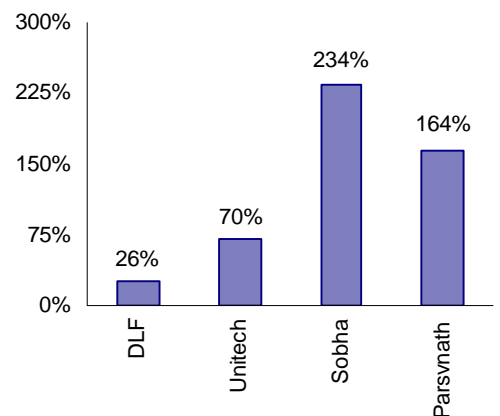
For DLF, land cost outstanding stands at Rs57b, which is 6% of the current market capitalization and 26% of FY08 and FY09 cumulative net profit (adjusted for securitized value of lease rentals). In comparison, land cost outstanding as a % of market capitalization for Unitech stands at 9%, for Sobha at 19% and for Parsvnath at 30%. In terms of cumulative net profits for FY08 and FY09, land cost outstanding is 70% for Unitech, 234% for Sobha and 164% for Parsvnath. This positioning provides significant leveraging opportunities for DLF to create value through land bank ageing, which very few companies can engage in.

#### LAND COST OUTSTANDING

AS % OF MKT CAP (RS M)



AS % OF FY08-09 CUMULATIVE NET PROFIT (RS M)



Source: Company/Motilal Oswal Securitise

### DLF is relatively better placed to face the macro challenges

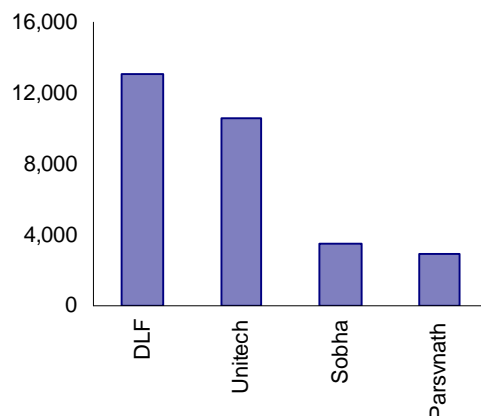
We believe DLF due to its dominant positioning in the commercial office, retail and premium apartment segments is relatively less vulnerable to the macro emerging challenges. We believe that a significant part of the concerns pertaining to the sector are getting compounded in middle income housing segment, which is more sensitive to prices and higher interest rates.

- ✍ For DLF, residential vertical accounts for 42% of Gross Asset Value (GAV), of which luxury housing (Rs20,000/sq ft+) and premium housing (Rs7,000-20,000/sq ft) account for 18%. Thus, middle income housing (below Rs4,000/sq ft), villas and plots account for just 24% of DLF's GAV. Luxury housing, which accounts for 0.7% of development area (4.5m sq ft), accounts for 6% of GAV. In terms of development area, middle income housing, villas and plots account for 340m sq ft (56% of area), but just 24% of GAV. This segment is more susceptible to emerging macro concerns and challenges, and thus even 50% lower absorption v/s estimates would impact GAV by ~10-11%.
- ✍ Commercial with development area of 110m sq ft (18% of total) accounts for 27% of GAV. Retail with development area of 65m sq ft (11% of total) accounts for 22% of GAV.

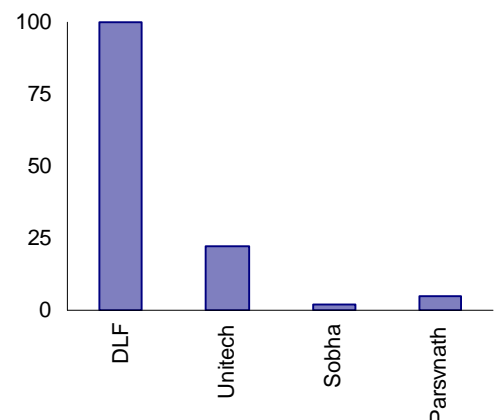
### DLF has one of the best quality land banks among Indian developers

DLF has one of the best quality land banks, with 42% of land bank in Delhi NCR region. The company has presence in 31 cities in India - Delhi NCR, Mumbai, Bangalore, Chennai, Kolkata, Chandigarh, Goa etc. The quality of the land bank is also reflected in the expected net profits during FY08 and FY09. For instance, in terms of land bank, while DLF is 13,055 acres, Unitech stands at 10,586 acres (81% of DLF), Sobha at 3,487 acres (26.7% of DLF) and Parsvnath at 2,897 acres (22% of DLF). However, in terms of cumulative net profits during FY08 and FY09, Unitech is 22.5% that of DLF, Parsvnath is 5% of DLF and Sobha is 2.3% of DLF.

COMPARATIVE LAND BANK (ACRES)



COMPARATIVE FY08-09 CUMULATIVE PAT (DLF=100)



Source: Company/Motilal Oswal Securities

**DLF: Profitability of large projects**

*12% of development plans  
account for 28% of gross  
asset value*

An analysis of some of the key projects of DLF indicates that 11.6% of the company's total development plans or 70.9m sq ft account for almost 28.1% of the company's GAV. Gurgaon VI-IX and the Dankuni project account for around 38% of DLF's development plans and 21.5% of its NAV.

**PROFITABILITY OF PREMIUM PROJECTS**

| PROJECT                    | LOCATION | CATEGORY    | AREA        | REALIZATION | COST     | GROSS MARGIN |         | GAV            |
|----------------------------|----------|-------------|-------------|-------------|----------|--------------|---------|----------------|
|                            |          |             | M SQ FT     | RS/SQ FT    | RS/SQ FT | RS/SQ FT     | RS M    | RS M           |
| Tulsiwadi                  | Mumbai   | Residential | 0.9         | 25,000      | 3,500    | 21,500       | 19,135  | 16,209         |
| Chanakyapuri               | Delhi    | Residential | 2.4         | 28,000      | 2,500    | 25,500       | 60,690  | 46,822         |
| SIEL                       | Delhi    | Commercial  | 3.6         | 16,500      | 2,500    | 14,000       | 50,540  | 25,552         |
| Mulund SEZ                 | Mumbai   | Commercial  | 7.3         | 16,500      | 2,500    | 14,000       | 102,200 | 63,444         |
| NTC Mills                  | Mumbai   | Retail      | 1.8         | 24,000      | 3,000    | 21,000       | 38,220  | 36,280         |
| DLF City Ph V              | Gurgaon  | Residential | 25.3        | 7,000*      | 1,500    | 5,500        | 138,985 | 75,388         |
|                            |          | Commercial  | 25.3        | 8,400       | 1,500    | 6,900        | 174,708 | 94,823         |
|                            |          | Retail      | 4.4         | 10,000      | 2,700    | 7,300        | 31,755  | 23,184         |
| <b>Total DLF City Ph V</b> |          |             | <b>54.9</b> |             |          |              |         | <b>193,395</b> |
| <i>% of Total</i>          |          |             | <i>9.0</i>  |             |          |              |         | <i>14.2</i>    |
| <b>Total</b>               |          |             | <b>70.9</b> |             |          |              |         | <b>381,702</b> |
| <i>% of Total</i>          |          |             | <i>11.6</i> |             |          |              |         | <i>28.1</i>    |

\*In DLF City Phase V, last reported transaction for apartments was Rs7,000/sq ft. The management has indicated that new launches would be at Rs10,000/sq ft.

**PROFITABILITY OF LARGE PROJECTS**

| PROJECT           | LOCATION | CATEGORY    | AREA         | REALIZATION | COST     | GROSS MARGIN |                | GAV            |
|-------------------|----------|-------------|--------------|-------------|----------|--------------|----------------|----------------|
|                   |          |             | M SQ FT      | RS/SQ FT    | RS/SQ FT | RS/SQ FT     | RS M           | RS M           |
| DLF City Ph VI-IX | Gurgaon  | Residential | 42.2         | 4,700       | 1,400    | 3,300        | 139,293        | 53,833         |
|                   |          | Commercial  | 20.8         | 6,000       | 1,900    | 4,100        | 85,444         | 55,527         |
|                   |          | Retail      | 11.1         | 8,500       | 3,450    | 5,050        | 55,803         | 34,040         |
|                   |          | Inst Plots  | 4.653        | 1,250       | 35       | 1,215        | 5,653          | 4,932          |
|                   |          | Plots       | 9.8          | 2,500       | 35       | 2,465        | 24,157         | 14,234         |
|                   |          | Villas      | 46.7         | 4,500       | 1,300    | 3,200        | 149,440        | 59,673         |
| <b>Total</b>      |          |             | <b>135.3</b> |             |          |              | <b>459,790</b> | <b>222,239</b> |
| <i>% of Total</i> |          |             | <i>22.1</i>  |             |          |              |                | <i>16.3</i>    |
| Dankuni           | Kolkatta | Residential | 26.0         | 2,500       | 1,300    | 1,200        | 31,200         | 16,265         |
|                   |          | Commercial  | 6.2          | 3,500       | 1,600    | 1,900        | 11,780         | 10,801         |
|                   |          | Retail      | 14.7         | 6,500       | 3,500    | 3,000        | 44,100         | 12,470         |
|                   |          | Inst Plots  | 10           | 625         | 35       | 590          | 5,900          | 4,174          |
|                   |          | Plots       | 20           | 1,250       | 100      | 1,150        | 23,000         | 14,234         |
|                   |          | Villas      | 20           | 2,500       | 1,300    | 1,200        | 24,000         | 12,519         |
| <b>Total</b>      |          |             | <b>96.9</b>  |             |          |              | <b>139,980</b> | <b>70,463</b>  |
| <i>% of Total</i> |          |             | <i>15.9</i>  |             |          |              |                | <i>5.2</i>     |

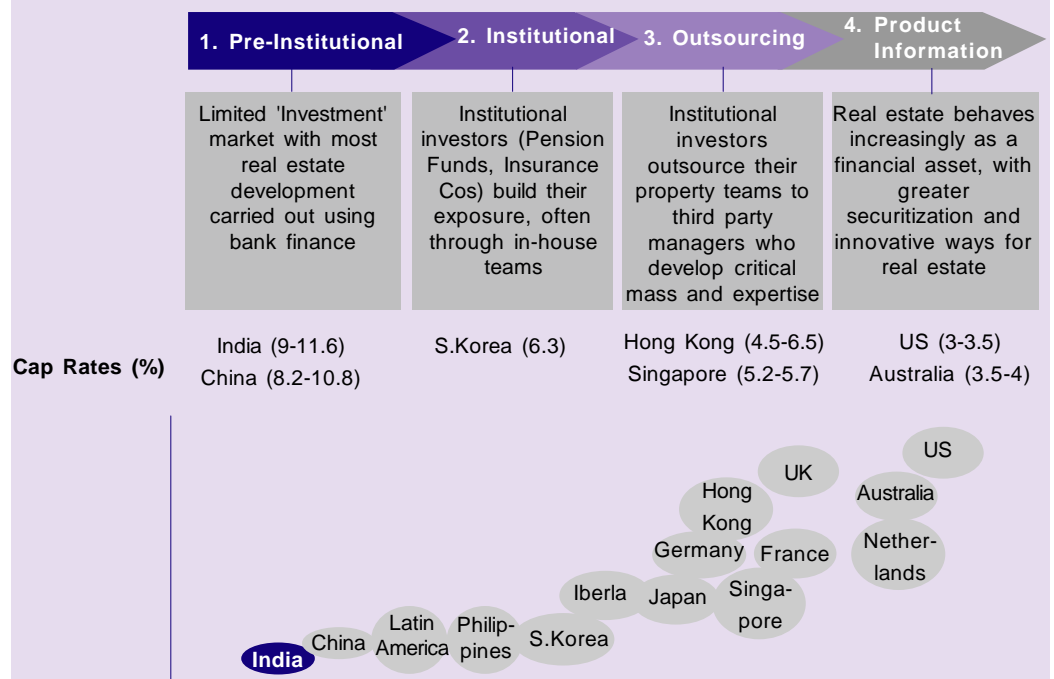
Source: Motilal Oswal Securities

*No cap rate compression factored in our NAV calculations*

**DLF could benefit from cap rate compression in the long term**

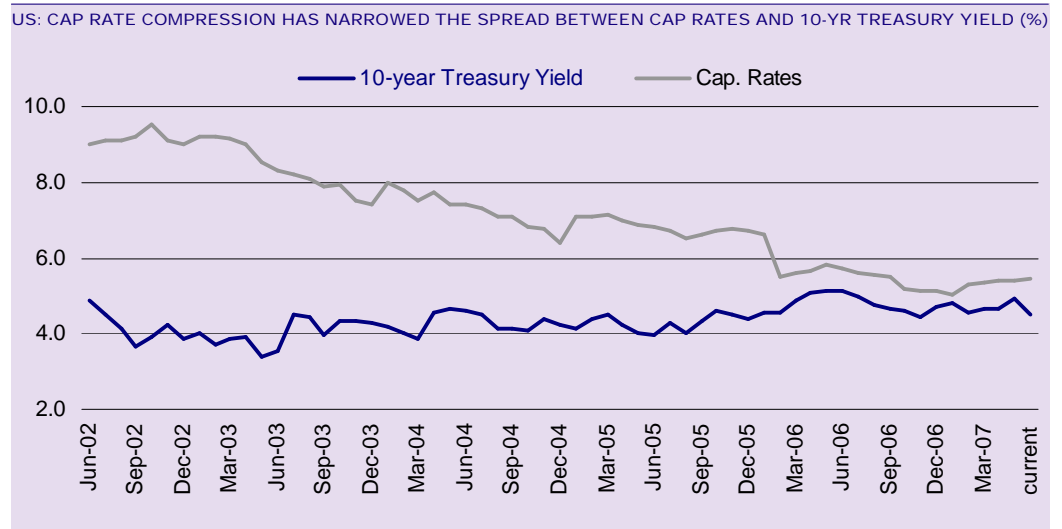
Besides benefiting from growing sales volume and rental revenue, cap rate compressions for the high-quality investment properties in prime locations could also bring in NAV appreciation for Indian real estate developers, particularly DLF. Such cap rate compression has taken place in USA, Singapore and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

IMPROVED MARKET MATURITY LEADS TO LOWER CAP RATES



Source: Motilal Oswal Securities

The global proliferation of Real Estate Investment Trust (REIT) markets and the securitization of real estate assets provide significant potential for access to long-term capital. REITs are well established in the Western world and also in some developed markets of Asia. While India has not enacted REIT legislations, FDI (with certain restrictions) is allowed in projects which are under development. This has permitted Indian companies to access project-based capital through direct FDI investments and overseas listings of SPVs (Alternative Investment Market, London is the most popular). Further, the Securities and Exchange Board of India is finalizing guidelines for the introduction of Real Estate Mutual Funds (REMFs), which can invest in developed properties. This along with increased transparency in transactions will result in channelizing institutional funds. We believe increased availability of institutional funding will lead to evolving business models for developers and efficient asset pricing going forward.



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.

## Uniquely positioned in emerging, profitable segments

### *DLF has better access to institutional finance*

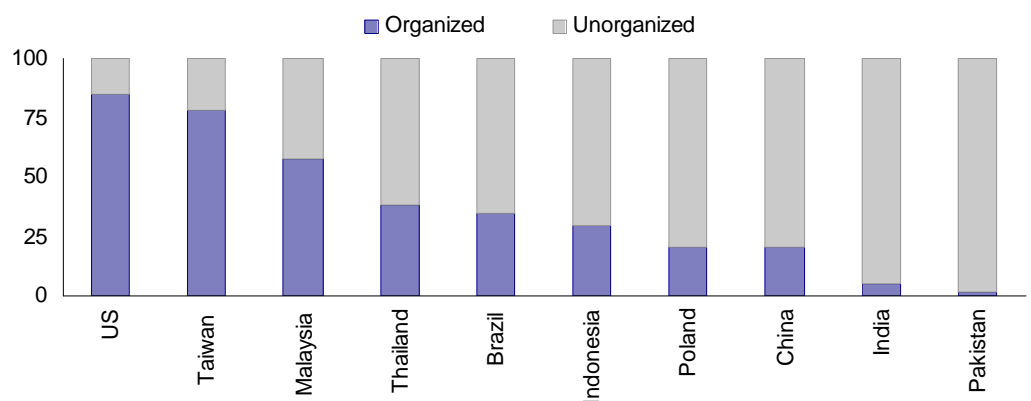
One of the key factors driving consolidation in the real estate industry in India is access to institutional finance. Globally, monetary capital for real estate is a commodity. However, in India, it continues to be a constraint, given the restrictions on access to institutional finance, lower transparency levels and higher stamp duty. Small money no longer drives real estate as a) land acquisition is getting expensive b) liasoning is becoming increasingly important c) net worth is important in government auctions and d) commercial space requires large amount of upfront investments. Thus, apart from intellectual capital surrounding acquiring, managing, and developing of real estate assets, companies will also need to evolve strategies towards monetization, while also improving yield per acre.

### Share of organized segment in India at just 3-5%

Real estate has historically been a fragmented industry in India, with several players having strong regional dominance. Until three to five years back, there was no player to boast of a pan-India presence or had operations across the different industry verticals such as residential, commercial, hotels, and retail. However, in the past few years, the industry has witnessed a transition, with companies such as DLF, Unitech, Sobha Developers, Parsvnath, etc acquiring land banks across several cities and increasing focus on commercial segment.

We estimate share of the organized segment in volume terms to be just ~3-5% of the total real estate market in India, suggesting a lot of room for large players to expand amid industry consolidation.

INDIA'S SHARE OF ORGANIZED REAL ESTATE MARKET AMONG THE LOWEST IN THE WORLD

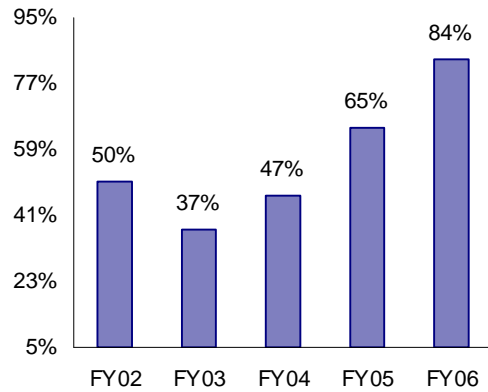


Source: DTZ Research

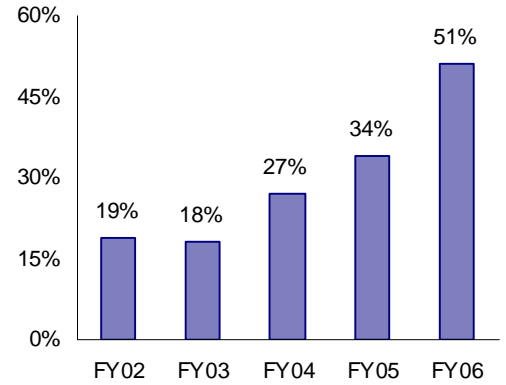


MARKET SHARE OF TOP COMPANIES IN ORGANIZED REAL ESTATE MARKET

TOP 25 COMPANIES



TOP 5 COMPANIES



Source: CMIE

**DLF uniquely positioned in emerging, profitable segments**

DLF was one of the first developers to anticipate the need for townships on the outskirts of fast growing cities and is credited with the development of Gurgaon. It was also one of the early developers to focus on theme-based projects such as ‘The Magnolias’ in DLF City, which included a golf course. Further, it was amongst the first developers in India to provide commercial space with floor plates of over 100,000 sq ft and large shopping malls with integrated entertainment facilities etc. The company is now uniquely positioned with dominant presence in segments like premium apartments, commercial office and retail.

**Projects under development:**  
 Commercial - 61.4%  
 Retail - 22.7%  
 Premium housing - 16%

Of the projects under development for DLF, 61.4% are in the commercial office segment, while 22.7% are in the retail segment. In the residential segment, premium housing account for 16% of the projects under construction. This product mix is far superior when compared with other companies in the sector.

PROJECTS UNDER DEVELOPMENT (M SQ FT)

|            | TOTAL       | RESIDENTIAL | PLOTS      | COMMERCIAL  | RETAIL      |
|------------|-------------|-------------|------------|-------------|-------------|
| <b>DLF</b> | <b>44.0</b> | <b>7.0</b>  | <b>0.0</b> | <b>27.0</b> | <b>10.0</b> |
| Unitech*   | 32.4        | 24.0        | 0.0        | 8.4         | 0.0         |
| Sobha      | 10.5        | 10.2        | 0.0        | 0.3         | 0.0         |
| Parsvnath  | 65.7        | 42.2        | 16.0       | 6.4         | 1.0         |

\* For Unitech, we have taken proportionate share in UCP

Source: Company

**DLF has dominant market positioning in emerging, profitable segments**

✍ **Premium apartments:** During FY04-06, 80,087 units of premium apartments (sale value of Rs2.5m+), representing 120m sq ft were constructed. Of this, DLF accounted for 12m sq ft (market share 10%) and Unitech constructed 5.9m sq ft (market share 5%). During this period, Top 25 builders accounted for a market share of 77.8%.

- ✍ **Commercial:** During FY04-06, there were just 14 real estate players involved in the development of commercial office area of 300,000+ sq ft. Top 5 players in this segment accounted for 80% of the market share.
- ✍ **Retail:** Even in retail, we expect organized segment to enjoy a disproportionately higher market share. During FY08, we expect DLF to start construction on 8m sq ft, to be delivered by FY10, representing a market share of ~10% (based on estimated industry absorption).

#### **Key factors driving consolidation in commercial, retail segments:**

- ✍ With operating history in existing properties, we believe large companies enjoy competitive advantage in the commercial space, which is **existing large tenant base and long-standing tenant relationships**. In our view, these tenants should provide a readily available base for new properties. Along with higher occupancy rates and lower marketing costs, the existence of this tenant base should allow real estate companies to achieve optimal operating efficiency at an earlier time. For the medium-term, this is an advantage that would be missing for most of the smaller property developers
- ✍ These segments **require large capital investments**, which again is beneficial to large companies as they enjoy better access to institutional finance. After land acquisition, it takes three to four years to get approvals and complete the property. After that property is completed, it takes one to two years for the property to be fully up and running, and could take even longer to achieve an optimal tenant mix and operating efficiency (in terms of rental rates and operating margins). Thus, the advantages of higher net worth, free cash flows and access to institutional funding have become increasingly important in the commercial property markets.

#### **Commercial offices: DLF's estimated market share at ~16%**

Based on the projects under development (27m sq ft) and a construction period of ~24 months, we expect DLF to account for market share of ~16% in commercial office absorption during FY08–FY10. Of the 27m sq ft of office space under construction, lease agreements for 11.2m sq ft have been signed. Of this, ~9m sq ft will be delivered during FY08 and ~14-15m sq ft in FY09. DLF has established relationships with 175 MNC clients and its strategy is to follow these companies across all locations. This provides strong end-user visibility for the company's developmental plans and acts as the key differentiating factor.

#### **Expect 21% CAGR in office space demand during FY07-FY11**

We expect IT/ITES segment will continue to account for 70% of the office space requirement in India. Based on estimated requirement of 100sq ft per employee, **we expect commercial space absorption of 56m sq ft in FY08**, increasing to 100m sq ft in FY11. 31% of India's population is in the age group of 15-29 years, and ~60% is below 30 years of age. This demographic profile will lead to strong addition of employable workforce, driving office space demand.

## ESTIMATED OFFICE SPACE ADDITION (M SQ FT)

|   | FY07       | FY08       | FY09       | FY10       | FY11       |
|---|------------|------------|------------|------------|------------|
| IT/ITES Employees ('000)                | 1,699      | 2,090      | 2,570      | 3,162      | 3,860      |
| <b>IT/ITES Employee Addition ('000)</b> | <b>329</b> | <b>391</b> | <b>481</b> | <b>591</b> | <b>698</b> |
| -Top 3 Companies                        | 41         | 45         | 53         | 63         | 74         |
| -Other Companies                        | 288        | 346        | 427        | 528        | 624        |
| <b>Space Required (m sq ft)</b>         |            |            |            |            |            |
| IT/ITES                                 | 33         | 39         | 48         | 59         | 70         |
| Corporate Segment                       | 14         | 17         | 21         | 25         | 30         |
| <b>Total</b>                            | <b>47</b>  | <b>56</b>  | <b>69</b>  | <b>84</b>  | <b>100</b> |

Source: Motilal Oswal Securities

**DLF stands out as the best positioned in the commercial segment**

DLF stands out as best positioned to cater to the demand for commercial office space, in terms of completed projects, projects under development, development plans, quality of land bank, etc. Commercial office account for 61.4% of the projects under construction.

## COMMERCIAL OFFICE PLANS (M SQ FT)

|            | DEVELOPED  |             | UNDER DEVELOPMENT |             | DEVELOPMENT PLANS |            |
|------------|------------|-------------|-------------------|-------------|-------------------|------------|
|            | M SQ FT    | % TOTAL *   | M SQ FT           | % OF TOTAL  | M SQ FT           | % OF TOTAL |
| <b>DLF</b> | <b>7.0</b> | <b>24.1</b> | <b>27.0</b>       | <b>61.4</b> | <b>110.0</b>      | <b>18</b>  |
| Unitech#   | 4.0        | 26.7        | 8.4               | 25.9        | 40.9              | 9          |
| Sobha      | 0.0        | 0.0         | 0.3               | 2.9         | 31.0              | 23         |
| Parsvnath  | 0.0        | 0.0         | 6.4               | 9.8         | 28.8              | 19         |

\* % of total development till date excluding plotted development

Source: Company

#For Unitech, we have taken proportionate share in UCP

## COMMERCIAL SPACE - DEVELOPMENT PLANS (M SQ FT)

| PARTICULARS    | DLF          | UNITECH     | UCP         | SOBHA       | PARSVNATH   |
|----------------|--------------|-------------|-------------|-------------|-------------|
| Gurgaon        | 46.1         | 3.3         | 7.0         | 1.6         | 7.2         |
| Delhi          | 4.0          | 0.2         | 0.0         | 0.0         | 0.0         |
| Noida          | 5.9          | 0.6         | 10.1        | 0.0         | 0.0         |
| Mumbai         | 7.6          | 0.0         | 0.0         | 0.0         | 0.0         |
| Hyderabad      | 6.4          | 3.6         | 0.0         | 0.0         | 0.0         |
| Kolkata        | 11.5         | 8.8         | 4.4         | 0.0         | 0.0         |
| Chennai        | 7.3          | 8.7         | 0.0         | 6.2         | 0.0         |
| Ahmedabad, etc | 7.6          | 0.0         | 0.0         | 0.0         | 0.0         |
| Bangalore      | 0.0          | 0.3         | 0.0         | 8.3         | 0.0         |
| Kochi          | 0.0          | 3.5         | 0.0         | 8.8         | 5.4         |
| Others         | 13.4         | 11.8        | 0.0         | 6.1         | 16.1        |
| <b>Total</b>   | <b>110.0</b> | <b>40.9</b> | <b>21.5</b> | <b>31.0</b> | <b>28.8</b> |

Source: Company

In terms of city-wise land holdings, DLF is best positioned, which is critical to attract anchor tenants

## DLF: COMMERCIAL SPACE LAUNCH PLAN (M SQ FT)

| COMMERCIAL            | TOTAL        | 2008        | 2009        | 2010        | 2011        | 2012        | 2013        | 2014       | 2015       | 2016       | 2017       |
|-----------------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|------------|------------|------------|
| Gurgaon-DLF City Ph V | 25.3         | 5.0         | 4.0         | 4.8         | 4.4         | 2.3         | 1.9         | 0.0        | 0.0        | 0.0        | 0.0        |
| Gurgaon               | 20.8         | 0.0         | 0.0         | 0.0         | 1.0         | 3.3         | 3.5         | 3.0        | 3.0        | 3.0        | 4.0        |
| Mumbai                | 7.6          | 0.2         | 0.7         | 1.0         | 1.0         | 2.0         | 2.8         | 0.0        | 0.0        | 0.0        | 0.0        |
| Delhi                 | 4.0          | 1.5         | 1.1         | 0.7         | 0.7         | 0.0         | 0.0         | 0.0        | 0.0        | 0.0        | 0.0        |
| Hyderabad             | 6.4          | 3.4         | 0.0         | 1.0         | 1.0         | 1.0         | 0.0         | 0.0        | 0.0        | 0.0        | 0.0        |
| Noida                 | 6.0          | 0.0         | 1.3         | 1.4         | 1.4         | 0.4         | 0.0         | 0.0        | 0.0        | 0.0        | 0.0        |
| Kolkata               | 11.5         | 1.0         | 0.5         | 1.8         | 2.0         | 3.0         | 2.0         | 1.2        | 0.0        | 0.0        | 0.0        |
| Chennai               | 7.3          | 3.0         | 1.0         | 1.0         | 1.0         | 0.0         | 0.0         | 0.0        | 0.0        | 0.0        | 0.0        |
| Ahmedabad,Gandhinagar | 7.6          | 0.0         | 1.1         | 1.5         | 1.3         | 1.3         | 1.3         | 0.7        | 0.5        | 0.0        | 0.0        |
| Others                | 13.4         | 1.3         | 3.3         | 4.0         | 2.8         | 1.2         | 0.7         | 0.1        | 0.1        | 0.0        | 0.0        |
| <b>Total</b>          | <b>110.0</b> | <b>15.4</b> | <b>12.9</b> | <b>17.1</b> | <b>16.6</b> | <b>14.4</b> | <b>12.2</b> | <b>4.9</b> | <b>3.6</b> | <b>3.0</b> | <b>4.0</b> |

Source: Company/Motilal Oswal Securities

### Retail: DLF's estimated market share at ~8%

For DLF, 10m sq ft of retail space is under construction, of which lease agreements for 6m sq ft have been signed. Of this, ~3.7m sq ft will be delivered during FY08 and ~6.3m sq ft in FY09. Based on the projects under development and a construction period of ~24-30 months, we expect DLF to account for market share of ~8% in retail space absorption during FY08-FY09.

### Expect retail space addition of ~160m sq ft during CY08-CY10

Indian organized retail market currently stands at US\$7b, and is expected to increase to US\$32-35b by CY10. The share of organized retail is expected to increase to 10% in CY10 from 4.5% CY07. This will need organized retail space of ~200m sq ft+, assuming sales of Rs7,000-7,500/sq ft. By 2007, estimated 40-50m sq ft of retail space will be available across India. This translates into an additional space requirement of ~150-160m sq ft during CY08-10 (average of ~50m sq ft per annum).

#### ESTIMATED RETAIL SPACE REQUIREMENT (M SQ FT)

|                                       |                |            |
|---------------------------------------|----------------|------------|
| Retail market (Total CY2010E)         | US\$ b         | 350        |
| Share of organized segment            | %              | 10         |
| Indian organized Retail               | US\$ b         | 35         |
| Expected sales                        | Rs/sq ft       | 7500       |
| Area under organized retail           | m sq ft        | 210        |
| Area as at end CY07                   | m sq ft        | 50         |
| <b>Possible absorption in CY08-10</b> | <b>m sq ft</b> | <b>160</b> |

Source: Motilal Oswal Securities

### DLF again stands out as the best positioned in the segment

DLF stands out as best positioned to cater to the demand for retail space, in terms of completed projects, projects under development, development plans, quality of land bank, etc. Retail segment accounts for 22.7% of the projects under construction for DLF. We believe that one of the biggest advantages which DLF brings for anchor tenants is the ready available landbank across the country (31 cities), which no other developer can match.

*DLF enjoys a clear early mover advantage*

In terms of city-wise land holdings, DLF is best positioned, which is critical to attract anchor tenants

## RETAIL SPACE PLANS (M SQ FT)

|            | DEVELOPED  |             | UNDER DEVELOPMENT |             | DEVELOPMENT PLANS |            |
|------------|------------|-------------|-------------------|-------------|-------------------|------------|
|            | M SQ FT    | % TOTAL *   | M SQ FT           | % OF TOTAL  | M SQ FT           | % OF TOTAL |
| <b>DLF</b> | <b>3.0</b> | <b>10.3</b> | <b>10.0</b>       | <b>22.7</b> | <b>64.9</b>       | <b>11</b>  |
| Unitech    | 1.0        | 6.7         | 0.0               | 0.0         | 25.1              | 6          |
| Sobha      | 0.0        | 0.0         | 0.0               | 0.0         | 0.0               | 0          |
| Parsvnath  | 0.3        | 7.9         | 1.0               | 1.6         | 6.8               | 4          |

\* % of total development till date excluding plotted development

Source: Company

## RETAIL SPACE - DEVELOPMENT PLANS (M SQ FT)

| PARTICULARS  | DLF         | UNITECH     | PARSVNATH  |
|--------------|-------------|-------------|------------|
| Delhi        | 3.3         | 0.0         | 2.3        |
| Gurgaon      | 15.3        | 2.4         | 0.0        |
| Hyderabad    | 2.9         | 0.5         | 0.0        |
| Noida        | 2.0         | 8.1         | 0.1        |
| Kolkata      | 15.1        | 1.6         | 0.0        |
| Mumbai       | 2.2         | 0.0         | 0.1        |
| Chennai      | 2.1         | 3.1         | 0.0        |
| Cochin       | 0.0         | 3.0         | 0.0        |
| Bangalore    | 2.4         | 0.0         | 0.0        |
| Goa          | 1.4         | 0.0         | 0.3        |
| Punjab       | 8.9         | 0.0         | 1.8        |
| Others       | 9.2         | 6.4         | 2.2        |
| <b>Total</b> | <b>64.9</b> | <b>25.1</b> | <b>6.8</b> |

Source: Company

## DLF: RETAIL SPACE LAUNCH PLAN (M SQ FT)

| RETAIL                  | 2008       | 2009        | 2010        | 2011       | 2012       | 2013       | 2014       | 2015       | 2016       | 2017       | TOTAL       | FY07+      |
|-------------------------|------------|-------------|-------------|------------|------------|------------|------------|------------|------------|------------|-------------|------------|
| Delhi                   | 0.0        | 0.2         | 0.0         | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 3.3         | 0.0        |
| Gurgaon - DLF City Ph V | 2.0        | 1.0         | 0.9         | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 4.3         | 0.0        |
| Gurgaon                 | 0.0        | 0.0         | 1.0         | 1.0        | 1.4        | 1.0        | 2.1        | 1.5        | 1.5        | 1.5        | 11.0        | 0.0        |
| Hyderabad               | 1.1        | 1.8         | 0.0         | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 2.9         | 0.0        |
| Noida                   | 0.7        | 0.7         | 0.7         | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 2.0         | 0.0        |
| Kolkata                 | 0.4        | 0.0         | 0.2         | 0.4        | 0.6        | 1.1        | 1.5        | 1.5        | 1.9        | 2.2        | 9.6         | 5.5        |
| Mumbai                  | 0.7        | 0.9         | 0.6         | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 2.2         | 0.0        |
| Chennai                 | 0.0        | 1.4         | 0.8         | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 2.1         | 0.0        |
| Bangalore               | 0.6        | 0.9         | 0.9         | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 2.4         | 0.0        |
| Goa                     | 0.7        | 0.1         | 0.1         | 0.1        | 0.1        | 0.1        | 0.1        | 0.1        | 0.0        | 0.0        | 1.4         | 0.0        |
| Punjab                  | 1.2        | 3.2         | 3.2         | 1.1        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 8.8         | 0.1        |
| Others                  | 0.4        | 2.6         | 3.9         | 2.1        | 0.2        | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        | 9.2         | 0.0        |
| <b>Total</b>            | <b>7.7</b> | <b>12.7</b> | <b>12.2</b> | <b>4.7</b> | <b>2.3</b> | <b>2.2</b> | <b>3.7</b> | <b>3.1</b> | <b>3.4</b> | <b>3.7</b> | <b>59.4</b> | <b>5.5</b> |

Source: Company/Motilal Oswal Securities

## Value creation: Landbank augmentation

We believe that large companies such as DLF, which have holding power, are best positioned to take large bets by acquiring large tracts of contiguous land, which could create value through 'land bank ageing' and 'integrated development'. Apart from land bank augmentation in the outskirts of Tier I and Tier II cities, DLF has also built up a sizable land bank in some of the most prestigious localities of Mumbai and Delhi, which provide exciting value maximization opportunities.

### Recent land bank addition of ~2,800 acres

*Recent land bank addition average cost is Rs230/sq ft*

Existing land bank stands at 13,055 acres, as compared to 10,255 acres as per the Red Herring Prospectus. There have been additions in Andhra Pradesh, Tamil Nadu, Maharashtra, Delhi and Haryana. DLF, in its first draft prospectus dated May 2006, had stated its land bank to be around 4,265 acres and total development area at 228m sq ft, which in a short duration of around one year has increased to 13,055 acres and 612m sq ft of development plans.

#### KEY LAND BANK ADDITIONS (ACRES)

|                |              |
|----------------|--------------|
| Andhra Pradesh | 1,317        |
| Tamil Nadu     | 600          |
| Maharashtra    | 434          |
| Haryana        | 312          |
| Delhi          | 167          |
| <b>Total</b>   | <b>2,830</b> |

Source: Company

### Land cost is competitive at Rs252 per sq ft

*13,055 acres of land bank at average cost of Rs252/sq ft provides significant competitive advantage*

The recent land bank addition of ~2,800 acres has been done at Rs19.3b (average cost of Rs230/sq ft, assuming FSI of 1x). For DLF, land cost stands at Rs154b, i.e. an average of Rs252/sq ft, which is competitive and provides a significant advantage to the company vis-a-vis other real estate companies. Strategically, DLF wants to add to the land bank at near to the average cost, based on the land bank replenished. Outstanding land payments have increased to Rs57b, from Rs44b in Apr 07, which we believe is comfortable (at 44% of the expected reported net profit during FY08 and FY09).

#### TOTAL OUTSTANDING LAND COST DETAILS (RS M)

|             | JAN-07 | APR-07  | CURRENT | INCREASE |
|-------------|--------|---------|---------|----------|
| Total Cost  | 82,000 | 134,911 | 154,202 | 19,291   |
| Outstanding | 55,370 | 43,956  | 56,956  | 13,000   |

Source: Company

## TOTAL DEVELOPMENT PLANS AND LAND COST

|                                | TOTAL<br>M SQ FT | LAND COST<br>RS M | LAND COST<br>RS/SQ FT |
|--------------------------------|------------------|-------------------|-----------------------|
| Retail                         | 65               | 42,003            | 648                   |
| Commercial                     | 110              | 22,625            | 206                   |
| Residential Other than Plotted | 328              | 80,556            | 246                   |
| <b>Sub Total</b>               | <b>503</b>       | <b>145,183</b>    | <b>289</b>            |
| Residential Plotted            | 109              | 9,019             | 83                    |
| <b>Grand Total</b>             | <b>612</b>       | <b>154,202</b>    | <b>252</b>            |

Source: Company

## CITY WISE LAND COSTS (RS/SQ FT)

|              | DEVELOPMENT PLANS<br>M SQ FT | TOTAL LAND COST<br>RS M | LAND COST<br>RS/SQ FT |
|--------------|------------------------------|-------------------------|-----------------------|
| NCR          | 255                          | 45,877                  | 180                   |
| Kolkata      | 105                          | 15,027                  | 144                   |
| Chennai      | 46                           | 17,879                  | 390                   |
| Bangalore    | 32                           | 13,217                  | 413                   |
| Goa          | 22                           | 2,824                   | 131                   |
| Panvel       | 22                           | 312                     | 14                    |
| Hyderabad    | 15                           | 6,969                   | 452                   |
| Panchkula    | 13                           | 3,625                   | 277                   |
| Mumbai       | 11                           | 16,659                  | 1,553                 |
| Chandigarh   | 11                           | 4,010                   | 366                   |
| Indore       | 10                           | 1,020                   | 98                    |
| Nagpur       | 10                           | 574                     | 57                    |
| Lucknow      | 11                           | 1,279                   | 118                   |
| Others       | 49                           | 24,931                  | 510                   |
| <b>Total</b> | <b>612</b>                   | <b>154,202</b>          | <b>252</b>            |

Source: Company

*Of 43m sq ft increase in development area, commercial is 23m sq ft and retail 9m sq ft*

### Development volumes have increased to 612m sq ft, continued focus on commercial and retail

DLF's total development area has increased from 10,255 acres in January 2007 to 13,055 acres currently and the total developable area has increased from 574m sq ft to 612m sq ft. In our view, the expanding land bank of DLF should allow for an expansion of its production volume, which would lead to higher earnings growth, in addition to faster asset turnover. DLF's development plans in the near term are focused on the commercial and retail verticals, which makes it distinct and unique compared to other real estate companies. This is also reflected in the fact that of the total increase of 43m sq ft in development area, commercial accounted for 23m sq ft and retail 9m sq ft.

## DEVELOPMENT PLANS (M SQ FT)

|              | APARTMENTS   | VILLAS      | INST PLOTS  | PLOTTED      | COMMERCIAL   | RETAIL      | TOTAL        |
|--------------|--------------|-------------|-------------|--------------|--------------|-------------|--------------|
|              | SALES        |             |             |              |              |             |              |
| NCR          | 117.5        | 46.5        | 4.7         | 9.8          | 56.2         | 20.7        | 255.2        |
| Kolkata      | 28.2         | 20.0        | 10.0        | 20.0         | 11.5         | 15.1        | 104.7        |
| Chennai      | 36.1         |             |             |              | 7.3          | 4.3         | 47.7         |
| Bangalore    | 13.7         | 6.3         |             | 15.9         |              | 4.2         | 40.1         |
| Panvel       |              |             |             | 21.8         |              |             | 21.8         |
| Goa          | 10.3         | 3.7         |             | 3.5          | 2.6          | 1.4         | 21.5         |
| Shimla       |              | 0.5         |             | 17.6         |              |             | 18.1         |
| Hyderabad    |              |             |             | 6.1          | 6.4          | 2.9         | 15.4         |
| Mumbai       | 0.9          |             |             |              | 7.6          | 4.0         | 12.5         |
| Lucknow      |              |             |             | 10.0         |              | 0.9         | 10.9         |
| Indore       | 4.4          | 2.5         |             | 2.3          | 0.4          | 0.9         | 10.5         |
| Chandigarh   | 4.0          | 2.1         |             | 2.1          | 1.0          | 1.2         | 10.4         |
| Nagpur       |              | 8.0         |             |              | 2.0          |             | 10.0         |
| Others       | 7.2          | 0.5         | 0.5         | 0.0          | 15.0         | 9.3         | 32.6         |
| <b>Total</b> | <b>222.2</b> | <b>90.2</b> | <b>15.2</b> | <b>109.1</b> | <b>110.0</b> | <b>64.9</b> | <b>611.6</b> |

Source: Company

DLF currently has a total of 44m sq ft of projects under construction, which comprises 7m sq ft of residential, 27m sq ft of commercial and 10m sq ft of retail development. The company has already pre-leased close to 12m sq ft of commercial vertical and around 4m sq ft of retail development to its established clientele. This provides strong visibility for revenues and earnings over FY08-10.

## PROJECTS UNDER DEVELOPMENT (M SQ FT)

|              | CURRENT   |
|--------------|-----------|
| Residential  | 7         |
| Commercial   | 27        |
| Retail       | 10        |
| <b>Total</b> | <b>44</b> |

Source: Company

**Significant scale up in operations planned**

*25m sq ft new launches in FY08, 41m sq ft in FY09, 59m sq ft in FY10*

We expect DLF to launch 25m sq ft of projects during FY08, increasing to 41m sq ft in FY09 and 59m sq ft in FY10. In our view, the expanding land bank of DLF should allow for an expansion of its production volume, which would lead to higher earnings growth, in addition to faster asset turnover. During FY08-FY10, a significant part of the development is targeted towards the commercial and retail verticals. Going forward, the company has also drawn up plans for a dominant positioning in middle income housing segment.



## TOTAL LAUNCH PLANS ACROSS VERTICALS (M SQ FT)

|                                | TOTAL      | SOLD      | 2008      | 2009      | 2010      | 2011      | 2012      | 2013      | 2014      | 2015      | 2016      | 2017      | FY17+     |
|--------------------------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Retail                         | 65         | 4         | 8         | 13        | 12        | 5         | 2         | 2         | 4         | 3         | 3         | 4         | 5         |
| Commercial                     | 110        | 6         | 15        | 13        | 17        | 17        | 14        | 12        | 5         | 4         | 3         | 4         | 0         |
| Residential Other than Plotted | 328        | 9         | 1         | 11        | 21        | 33        | 40        | 41        | 42        | 40        | 37        | 33        | 19        |
| <b>Sub Total</b>               | <b>502</b> | <b>18</b> | <b>25</b> | <b>37</b> | <b>50</b> | <b>55</b> | <b>57</b> | <b>56</b> | <b>51</b> | <b>46</b> | <b>43</b> | <b>41</b> | <b>25</b> |
| Residential Plotted            | 109        | -         | 1         | 4         | 9         | 10        | 11        | 11        | 13        | 13        | 13        | 8         | 18        |
| <b>Grand Total</b>             | <b>612</b> | <b>18</b> | <b>25</b> | <b>41</b> | <b>59</b> | <b>65</b> | <b>67</b> | <b>66</b> | <b>64</b> | <b>59</b> | <b>56</b> | <b>48</b> | <b>42</b> |

Source: Company/Motilal Oswal Securities

In terms of execution, we believe that DLF is better positioned, due to vast experience in the industry, larger area developed till date and joint ventures 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 11 projects covering 20+ m sq ft. We believe that these strategic tie ups provide DLF an edge over other developers.

## Financials: Self-sustaining growth model

*Recurring profits and cash flows provide exciting value maximization opportunities*

We expect DLF to report robust financial performance, with revenue CAGR of 53% till FY10 and net profit CAGR of 60%. This strong growth would be primarily driven by increase in production volumes (and deliveries) across verticals and increasing rental income.

- ✂ Adjusting for the securitized value of lease rentals (which we consider as cash equivalent), we expect net cash at Rs18b in FY08 (v/s net debt of Rs84b in FY07), Rs216b in FY09 and Rs312b in FY10.
- ✂ Adjusted for the capitalized value of the incremental lease rentals (at cap rates of 10% and full corporate tax rate), we estimate DLF's adjusted net profit to increase from Rs27.9b in FY07 to Rs93b in FY08 (up 233%), Rs132b in FY09 (up 42%) and Rs135b in FY10 (up 20%).

We believe that these quantum of recurring profits and cash flows will provide exciting value maximization opportunities, going forward.

### Hybrid business model

*Sale and lease business model enables steady rental income source*

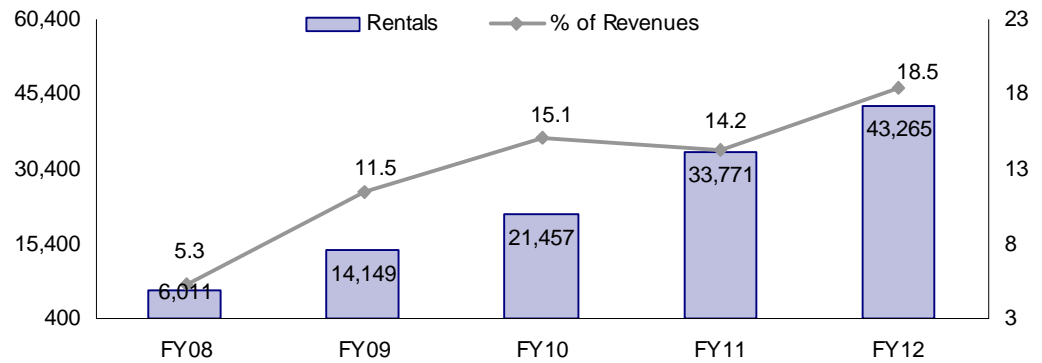
DLF has a hybrid business model, which is a blend of 'sale and lease'. We estimate DLF's rental income to increase from Rs6b in FY08 to Rs43b by FY12, comprising an asset base of 46m sq ft in the commercial and retail verticals. We believe this rental stream would enable the company a steady income source and also provide monetization opportunities, leading to a long-term, self-sustaining growth phase.

#### LEASE RENTAL (RS M)

|  | FY08         | FY09          | FY10          | FY11          | FY12          |
|--|--------------|---------------|---------------|---------------|---------------|
| <b>Revenues (Rs m)</b>                 |              |               |               |               |               |
| Commercial                             | 1,665        | 2,743         | 4,150         | 8,121         | 11,003        |
| Retail                                 | 4,346        | 11,406        | 17,308        | 25,649        | 32,262        |
| <b>Total</b>                           | <b>6,011</b> | <b>14,149</b> | <b>21,457</b> | <b>33,771</b> | <b>43,265</b> |
| <b>Available for lease (m sq feet)</b> |              |               |               |               |               |
| Commercial                             | 2            | 4             | 6             | 12            | 16            |
| Retail                                 | 2            | 8             | 15            | 23            | 30            |
| <b>Total</b>                           | <b>4</b>     | <b>12</b>     | <b>21</b>     | <b>35</b>     | <b>46</b>     |

Source: Motilal Oswal Securities

LEASE RENTALS AS % OF TOTAL REVENUE (RS M)



Source: Company/Motilal Oswal Securities

Globally, monetary capital for real estate is a commodity. In India, it continues to be a constraint, given restrictions on access to institutional finance, lower transparency levels and higher stamp duty. No longer, small money drives real estate as a) land acquisition is getting expensive b) networth is important in government auctions and c) commercial space requires large amounts of upfront investments.

Access to institutional funding can lead to lower capital costs and also creates conditions for building integrated property business models, comprising of property development, re-development, acquisitions, divestitures, leasing and management. As such, these business models can create long-term, value-added ongoing enterprises.

### Revenue CAGR of 53% till FY10

*Rs142b revenue in FY10  
v/s Rs39b in FY07*

We estimate DLF's revenue to increase from Rs39.4b during FY07 to Rs142b during FY10, a CAGR of 53%. This strong growth would be primarily driven by rise in production volumes (and deliveries) across verticals and increasing rental income. We estimate DLF's rental income to increase from Rs6b in FY08 to Rs43b by FY12, comprising an asset base of 46m sq ft in the commercial and retail verticals.

REVENUE BREAK-UP (RS M)

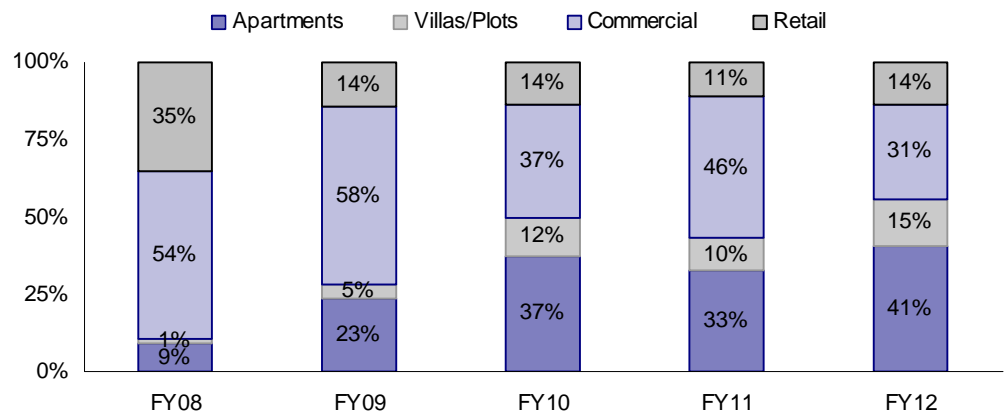
|                     | FY08           | FY09           | FY10           | FY11           | FY12           |
|---------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenues</b>     |                |                |                |                |                |
| Apartments          | 10,488         | 28,813         | 53,079         | 77,697         | 95,102         |
| Plots               | 1,525          | 5,491          | 12,223         | 15,337         | 17,673         |
| Villas/Plots        | 0              | 0              | 3,220          | 7,013          | 14,476         |
| <b>Commercial</b>   |                |                |                |                |                |
| - Lease             | 1,665          | 2,743          | 4,150          | 8,121          | 11,003         |
| - Sale              | 59,909         | 68,483         | 47,742         | 100,933        | 61,134         |
| <b>Retail</b>       |                |                |                |                |                |
| - Lease             | 4,346          | 11,406         | 17,308         | 25,649         | 32,262         |
| - Sale              | 35,058         | 6,279          | 2,173          | 468            | 0              |
| Institutional Plots | 106            | 112            | 2,184          | 2,294          | 2,646          |
| <b>Total</b>        | <b>113,096</b> | <b>123,327</b> | <b>142,078</b> | <b>23,7511</b> | <b>234,297</b> |

Source: Motilal Oswal Securities

### Ramp up in volumes driven by change in product mix

The commercial and retail verticals currently account for around 89% of DLF's FY09E total revenue. We expect this contribution to reduce to 50% of total revenue by FY10, driven by new product launches in premium residential and middle income housing segments. We estimate residential sales (including plots), which account for only 9% of DLF's revenue in FY08, to increase to 48% during FY10.

DLF'S PRODUCT MIX



Source: Motilal Oswal Securities

### Cash and cash equivalent of Rs687b by FY12 (Rs403/sh)

*Robust financials provide opportunities for NAV upsides*

Post the cash flows from the recent IPO, we expect DLF's net debt at Rs27b in FY08 and net cash of Rs110b in FY09. Adjusting for the securitized value of lease rentals (which we consider as cash equivalent), we expect net cash at Rs18b in FY08, Rs216b in FY09 and Rs312b in FY10. This provides the company with strong financial leveraging possibilities, which is unprecedented.

We have calculated the cash equivalent of lease rentals at a cap rate of 10% and deducted income tax at corporate levels. We believe there could be possible upsides to these numbers, as currently 48% of planned development in commercial offices are IT/ITES SEZ, which enjoys 100% tax exemption.

We believe the company would be able to leverage its strong financial position to aggressively pursue new landbanking 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. DLF is, however, acquiring new land at ~US\$2.5b pa. This value is not getting captured in our NAV calculation, which does not value DLF on a 'going concern enterprise' basis.

## NET CASH AND CASH EQUIVALENT (RS M)

|                                     | FY07           | FY08E         | FY09E          | FY10E          | FY11E          | FY12E          |
|-------------------------------------|----------------|---------------|----------------|----------------|----------------|----------------|
| Lease Rentals                       | 1,546          | 6,011         | 14,149         | 21,457         | 33,771         | 43,265         |
| Securitized value (at 10% Cap Rate) | 15,460         | 60,108        | 141,488        | 214,573        | 337,708        | 432,653        |
| Less: Corporate Tax                 | 3,865          | 15,027        | 35,372         | 53,643         | 84,427         | 108,163        |
| <b>Cash Equivalent</b>              | <b>11,595</b>  | <b>45,081</b> | <b>106,116</b> | <b>160,930</b> | <b>253,281</b> | <b>324,490</b> |
| Cash                                | 4,155          | 7,631         | 109,955        | 150,964        | 246,114        | 363,484        |
| Cash Equivalent                     | 11,595         | 45,081        | 106,116        | 160,930        | 253,281        | 324,490        |
| <b>Total</b>                        | <b>15,750</b>  | <b>52,712</b> | <b>216,071</b> | <b>311,894</b> | <b>499,395</b> | <b>687,974</b> |
| Debt                                | 99,328         | 35,000        | 0              | 0              | 0              | 0              |
| <b>Net Cash /Cash Equivalent</b>    | <b>-83,578</b> | <b>17,712</b> | <b>216,071</b> | <b>311,894</b> | <b>499,395</b> | <b>687,974</b> |
| <b>Rs/Share</b>                     | <b>-49</b>     | <b>10</b>     | <b>127</b>     | <b>183</b>     | <b>293</b>     | <b>403</b>     |
| <b>% of CMP</b>                     | <b>-8.6</b>    | <b>1.8</b>    | <b>22.2</b>    | <b>32.1</b>    | <b>51.4</b>    | <b>70.8</b>    |

Source: Company/Motilal Oswal Securities

**Adjusted net profit at Rs93b in FY08, Rs132b in FY09**

Net profit CAGR of 60%  
FY07-FY10E

We estimate DLF to report net profit of Rs59.6b in FY08 (up 206%), Rs71.2b in FY09 (up 20%) and Rs80b in FY10 (up 12%). Adjusted for the capitalized value of the incremental lease rentals (at cap rates of 10% and full corporate tax rate), we estimate DLF's net profit at Rs89b in FY08 (up 234%), Rs123b in FY09 (up 38%) and Rs124b in FY10 (up 1%). We believe that these quantum of recurring profits and cash flows will provide exciting value maximization opportunities.

## ADJUSTED NET PROFIT (RS M)

|                                   | FY07          | FY08E         | FY09E          | FY10E          | FY11E          | FY12E          |
|-----------------------------------|---------------|---------------|----------------|----------------|----------------|----------------|
| <b>Net Profit</b>                 | <b>19,437</b> | <b>59,563</b> | <b>71,184</b>  | <b>80,024</b>  | <b>135,461</b> | <b>131,834</b> |
| Less: Lease Rentals (post tax)    | 1,237         | 4,157         | 9,608          | 14,570         | 23,169         | 29,773         |
| Net Profit (excl Lease Rentals)   | 18,200        | 55,406        | 61,576         | 65,454         | 112,292        | 102,061        |
| Increase in Rental Income         | 1,124         | 4,465         | 8,138          | 7,309          | 12,313         | 9,495          |
| Capitalized Rental (10% cap rate) | 11,240        | 44,648        | 81,380         | 73,085         | 123,135        | 94,945         |
| Post Tax Capitalized Rentals      | 8,430         | 33,486        | 61,035         | 54,814         | 92,351         | 71,209         |
| <b>Adjusted Profits</b>           | <b>26,630</b> | <b>88,892</b> | <b>122,611</b> | <b>124,268</b> | <b>204,642</b> | <b>173,270</b> |
| % YoY                             |               | 234           | 38             | 1              | 65             | -15            |
| Adj EPS (Rs /sh)                  | 16            | 52            | 72             | 73             | 120            | 102            |
| Adj PER (at Rs574/sh)             | 36.5          | 10.9          | 7.9            | 7.8            | 4.7            | 5.6            |

Source: Motilal Oswal Securities

## Sizable embedded value in joint ventures

We believe DLF has significant embedded value in its joint ventures and partnerships, such as its 50:50 JV with the Laing O'Rourke for construction, Prudential for life insurance, WSP group for engineering and design consultancy, MoU with Nakheel for large Sez's etc. In our NAV, we have not assigned any value to these partnerships and joint ventures, as many of them are in nascent stages.

- ✧ **DLF Laing O'Rourke (India):** DLF Laing O'Rourke (India) Ltd is a joint venture between DLF, Laing O'Rourke Plc and LOR Holdings Ltd. According to the agreement, the JV company would carry out development activities in identified DLF projects for a built up space of 50m sq ft over five years with minimum of 6m sq ft each calendar year. Laing O'Rourke will issue a corporate guarantee in favor of DLF to secure the JV company's performance under the projects.
- ✧ **Joint venture with Hilton:** DLF has entered into a joint venture with Hilton International for development and ownership of a chain of hotels and serviced apartments in India. DLF will hold 74% and Hilton will hold 26% of the equity share capital of the JV company, which would develop and own 50-75 hotels and serviced apartments with an equity investment of US\$550m over the next five to seven years. The hotels and serviced apartments would be managed and operated by Hilton's subsidiaries. DLF has agreed not to develop and manage any hotels or serviced apartments that target the same market segment as of the JV company.
- ✧ **Joint venture with WSP Group:** The JV company has been established to provide engineering and design consultancy and project management services for DLF's real estate plans. Both DLF and WSP Group have equal shareholding in the JV company and have identical rights and privileges. The JV company will provide consulting services to DLF for an initial 18 months after which the JV company can target new clients in India as agreed by the parties. WSP is permitted to provide independent services to its current as well as new clients.
- ✧ **Acquisition of stake in Feedback Ventures:** Necia Builders and Developers Pvt Ltd, a subsidiary of DLF, has acquired a 19% stake in Feedback Ventures at Rs72.5/ share. Feedback Ventures provides consulting, engineering, project management and development services for infrastructure projects in India.
- ✧ **MoU with Nakheel:** DLF has signed an MoU with Nakheel LLC, a leading property developer in UAE, to develop real estate projects in India through a 50:50 JV company. The initial two projects of the JV company would be 20,000 acres SEZ each in NCR and South Maharashtra and/or Goa.

- ✍ **Joint venture with Prudential Insurance:** DLF has entered into a joint venture with Prudential Insurance to undertake life insurance business in India. DLF would hold 74% and Prudential would hold 26% of the equity share capital. DLF's 30% equity share capital and Prudential's entire shareholding would be locked in for seven years. Remaining shareholding of DLF would be locked in for 10 years. After the lock-in period, if any shareholder intends to transfer the shares, first offer should be made to the non-selling shareholder. No transfer of share is permitted to the competitor.
- ✍ **Joint venture with MG Group:** DLF has entered into a 50:50 joint venture with MG group for real estate development. The board shall consist of 4-12 members. Each party is entitled to appoint one half of the board. A non-executive chairman would be nominated by DLF.
- ✍ **Joint venture with HSIIDC:** DLF has entered into a joint venture with HSIIDC for developing two SEZ projects. A SPV would be created in the form of a limited company to implement the project. Shareholding pattern is 90% in favor of DLF and 10% in favor of HSIIDC. The equity holding of DLF in the SPV cannot fall below 51% and HSIIDC cannot increase it above 26%. In the event of initial public offering, DLF would contribute its share for the lock-in period of three years and shares held by HSIIDC would be locked in for one year. HSIIDC has the right to sell its shares and DLF has the first right to purchase it at market price. On DLF's refusal, HSIIDC would have right to offer the shares to the public.
- ✍ **Memorandum of Co-operation with Fraport AG Frankfurt Airport Services:** DLF has signed a MoC with Fraport AG Frankfurt Airport Services Worldwide to establish DLF Fraport SPV. The SPV would focus on development and management of certain airport projects in India. The shareholding of each party shall be mutually agreed such that each of parties shall hold not less than 26% in the management company.

## Concerns: Misplaced and others

### A) Misplaced concerns

✎ **NAV is vulnerable to absorption in residential segment:** We believe that DLF due to its predominant positioning in the commercial office, retail and premium apartment segments is relatively less vulnerable to the emerging macro challenges. We believe that a significant part of the concerns pertaining to the sector are getting compounded in middle income housing segment, which is more sensitive to prices and higher interest rates.

For DLF, residential vertical accounts for 42% of Gross Asset Value (GAV), of which luxury housing (Rs20,000/sq ft+) and premium housing (Rs7,000-20,000/sq ft) account for 18%. Thus, middle income housing (below Rs4,000/sq ft), villas and plots account for just 24% of DLF's GAV. Luxury housing, which accounts for 0.7% of development area (4.5m sq ft), accounts for 6% of GAV. In terms of development area, middle income housing, villas and plots account for 340m sq ft (56% of area), but just 24% of GAV. This segment is more susceptible to emerging macro concerns and challenges, and thus **even 50% lower absorption v/s estimates would impact GAV by ~10-11%**.

✎ **NAV is vulnerable to absorption in large projects like Dankuni, Kolkata and DLF City Ph VI-IX, Gurgaon:** One of the key concerns is that 38% of the development land bank of 612m sq ft is accounted for by two projects - Dankuni, Kolkata and DLF City Ph VI-IX, Gurgaon. These projects are located on the outskirts of large cities and currently suffer from poor economic activity. Our GAV calculations indicate that while these projects account for around 38% of DLF's development plans, they account for only 21.5% of estimated NAV. Thus, even a significant delay in absorption would have a limited impact on the NAV. On the upside, these projects provide ground to try many more 'Gurgaon type experiments', which could provide exciting value maximization possibilities.

✎ **Transfer pricing on sale of assets to DLF Assets:** In FY07, DLF sold ~4.0m sq ft of commercial office space to DLF Assets (DAL). At the time of the transfer, DAL was 100% owned by the promoters of DLF. Post the induction of private equity investors like DE Shaw and Lehman Brothers, promoter stake has been diluted by ~15%+. Hence, we argue that promoter stake in DLF at 89.5% is higher than in DLF Assets, and thus many of the issues pertaining to conflict of interest have been addressed. Further, we understand that the asset transfer has been through a transparent bidding mechanism, with DAL being one of the bidders.



**B) Other concerns**

**Land purchase agreements:** We have not done any independent verification of the stated developable area of 612m sq ft and the stated conversion. Also, as per the April 2007 Red Herring Prospectus, out of the total land bank of 10,256 acres, the company had 'agreements to purchase' 3,686 acres (including 2,606 acres from the government). We understand that most of these agreements are watertight and therefore the associated risks are minimum.

**Aggressive development plans assumed:** We have assumed that DLF would be able to effectively develop, finance and sell a developable area of 569m sq ft over FY08-FY17. However, the substantial planned scale up of operations by DLF and other companies may result in supply exceeding demand in some pockets of the market or demand may peter down due to adverse economic factors. Further, such a significant scale up in operations carry associated execution risks.

**Land bank additions over past 15 months have been unprecedented:** 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. This can result in blocking sizable amount of capital towards land bank ageing. DLF, in its first prospectus dated May 2006, had stated its land bank to be around 4,265 acres and total development area at 228m sq feet, which in a short duration of around one year has increased to 13,055 acres and 612m sq feet of development plans. Such a huge scale up in a short duration is unprecedented.

**Real risk of decline in property prices, and concentration in Gurgaon:** Conservatively, we have assumed 'NO' price increase in the NCR region for apartments during FY08-17 and for commercial and retail during FY08-FY12. From FY13, we have assumed a price CAGR of 5% in commercial and retail space in NCR. Other than NCR, we have assumed stagnant prices for all projects and all verticals (residential, commercial and retail) for FY08 and FY09. Given the sharp acceleration in real estate prices over the past three years, there exists a real probability of a price correction in certain pockets. Also, NCR region still accounts for 42% of the development area for the company, thus exposing it to significant price movements in the region.

**Macro economic risks:** Any weaker-than-expected GDP growth for the domestic economy could negatively affect sentiment of buyers, leading to elusive demand, which could render our sales and earnings estimates for DLF unrealizable. Also, any further tightening measures and policy changes by the government (with regard to mortgage applications and approvals, project financing, and property pre-sales) to curb speculation and overinvestment could adversely affect the bottom lines and cash flows of property developers and sentiment of home buyers.

## Background

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 in 1949. Since then, the company has developed many well known urban colonies in Delhi, including South Extension, Greater Kailash, Kailash Colony and Hauz Khas. However, following the passage of the Delhi Development Act in 1957, the state assumed control of real estate development activities in Delhi, which resulted in restrictions on private real estate colony development. As a result, DLF commenced acquiring land outside the areas controlled by the Delhi Development Authority (DDA), particularly in Gurgaon. Since inception, the company has developed of ~224m sq ft, including 22 urban colonies as well as an integrated 3,000-acre township in Gurgaon by the name of DLF City.

### CUMULATIVE DEVELOPMENT COMPLETED

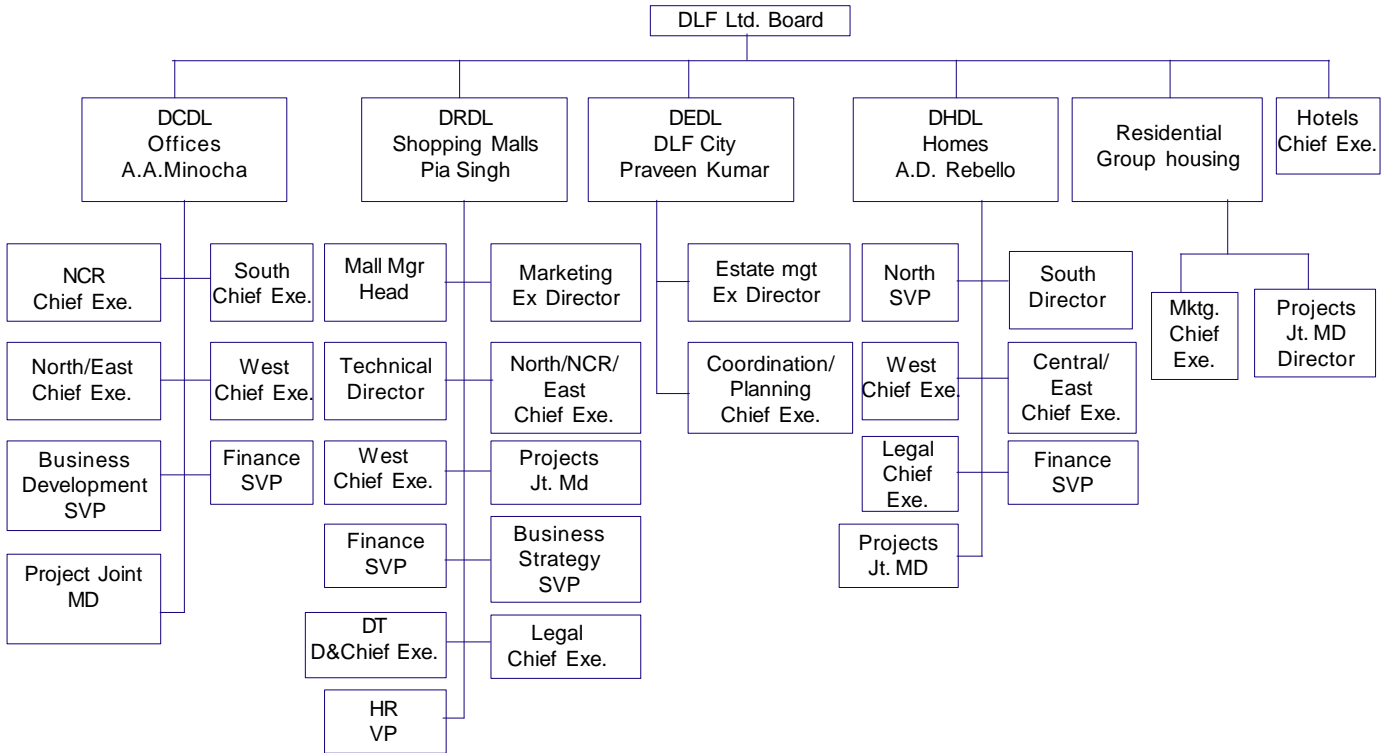
|              | (M SQ FT)  |
|--------------|------------|
| Plots        | 195        |
| Residential  | 19.0       |
| Commercial   | 7.0        |
| Retail       | 3.0        |
| <b>Total</b> | <b>224</b> |

*Source: Company/Motilal Oswal Securities*

## Management

DLF has a strong management team with proven track record. The company is led by K P Singh (Chairman) and his son Rajiv Singh (Vice-Chairman) - both having decades of experience in the real estate industry. With an extensive exposure to the Indian property market in the past 40 years, the management has formed strong business acumen and profound understanding of the local property market.

MANAGEMENT STRUCTURE



Source: Company

## Annexure

### DETAILS OF DLF'S SALES IN THE RESIDENTIAL VERTICAL

| PROJECT NAME      | AREA        | NO. OF       | START YR | END YR | VALUE         | AVERAGE      |              |            |            |           |            |
|-------------------|-------------|--------------|----------|--------|---------------|--------------|--------------|------------|------------|-----------|------------|
|                   |             |              |          |        |               | UNITS        | FISCAL       | FISCAL     | SALE PRICE | UNIT SIZE | UNIT PRICE |
|                   |             |              |          |        |               |              |              |            |            |           |            |
| The Aralias       | 1.6         | 252          | 2003     | 2007   | 4,006         | 2,548        | 6,349        | 15.9       |            |           |            |
| Westend Heights   | 1           | 368          | 2002     | 2007   | 2,214         | 2,243        | 2,717        | 6          |            |           |            |
| Trinity Towers    | 0.6         | 234          | 2002     | 2006   | 877           | 1,567        | 2,564        | 3.7        |            |           |            |
| DLF Exclusive     | 0.8         | 516          | 2001     | 2004   | 10,39         | 1,350        | 1,550        | 2          |            |           |            |
| Belvedere Park    | 0.5         | 318          | 2000     | 2003   | 1,123         | 2,086        | 1,572        | 3.5        |            |           |            |
| Belvedere Towers  | 0.5         | 222          | 2000     | 2003   | 933           | 1,816        | 2,252        | 4.2        |            |           |            |
| Carlton Estate    | 0.7         | 485          | 1999     | 2003   | 972           | 1,396        | 1,443        | 2          |            |           |            |
| Princeton Estate  | 1.1         | 918          | 1999     | 2003   | 1,533         | 1,456        | 1,198        | 1.7        |            |           |            |
| Wellington Estate | 0.9         | 555          | 1999     | 2003   | 1,129         | 1,289        | 1,622        | 2          |            |           |            |
| Oakwood Estate    | 0.5         | 322          | 1999     | 2002   | 740           | 1,412        | 1,553        | 2.3        |            |           |            |
| DLF Regent House  | 0.1         | 34           | 1999     | 2002   | 77            | 1,442        | 2,941        | 2.3        |            |           |            |
| Ridgewood Estate  | 1.4         | 924          | 1999     | 2001   | 1,777         | 1,284        | 1,515        | 1.9        |            |           |            |
| Richmond Park     | 0.6         | 280          | 1997     | 2001   | 988           | 1,747        | 2,143        | 3.5        |            |           |            |
| Beverly Park - II | 0.6         | 182          | 1996     | 1998   | 692           | 1,238        | 3,297        | 3.8        |            |           |            |
| Windsor Court     | 0.4         | 132          | 1995     | 2000   | 779           | 2,030        | 3,030        | 5.9        |            |           |            |
| Hamilton Court    | 0.7         | 266          | 1995     | 2000   | 942           | 1,305        | 2,632        | 3.5        |            |           |            |
| Regency Park      | 1.2         | 824          | 1995     | 2000   | 1,428         | 1,169        | 1,456        | 1.7        |            |           |            |
| Beverly Park - I  | 0.5         | 158          | 1993     | 1998   | 498           | 1,027        | 3,165        | 3.2        |            |           |            |
| Executive Home    | 0.2         | 109          | 1992     | 1996   | 170           | 746          | 1,835        | 1.6        |            |           |            |
| Silver Oaks       | 1.4         | 749          | 1991     | 1997   | 739           | 739          | 1,869        | 1          |            |           |            |
| New Town House    | 0.5         | 333          | 1990     | 1994   | 322           | 629          | 1,502        | 1          |            |           |            |
| Town House        | 0.6         | 540          | 1990     | 1994   | 412           | 642          | 1,111        | 0.8        |            |           |            |
| <b>Total</b>      | <b>16.4</b> | <b>8,721</b> |          |        | <b>23,390</b> | <b>1,426</b> | <b>1,881</b> | <b>2.7</b> |            |           |            |

Source: Motilal Oswal Securities

### DETAILS OF DLF'S COMPLETED RETAIL DEVELOPMENT

| PROJECT NAME    | SALABLE AREA | STARTED | COMPLETED | SALE VALUE | AVG. REALN. |
|-----------------|--------------|---------|-----------|------------|-------------|
|                 |              |         |           |            |             |
| DLF Mega Mall   | 0.30         | 2002    | 2004      | 1119       | 4,520       |
| DLF City Centre | 0.30         | 2001    | 2003      | 1028       | 4,003       |
| Galleria        | 0.30         | 1996    | 2000      | 1421       | 4,676       |
| Super Mart-I    | 0.20         | 1996    | 2000      | 221        | 1,256       |
| Super Mart-II   | 0.03         | 1996    | 2000      | 39         | 1,393       |
| Central Arcade  | 0.10         | 1991    | 1993      | 80         | 1,415       |
| Park-N-Shop     | 0.01         | 1992    | 1993      | 14         | 2,460       |

## DETAILS OF DLF'S COMMERCIAL REAL ESTATE DEVELOPMENT

| PROJECT NAME  | AREA           |     | NO. OF UNITS  | START IN FISCAL | FINISH IN FISCAL | VALUE RS M    | SALE PRICE RS/ SQ FT | AVERAGE UNIT |            |
|---------------|----------------|-----|---------------|-----------------|------------------|---------------|----------------------|--------------|------------|
|               | MSF            |     |               |                 |                  |               |                      | SIZE SQ FT   | PRICE RS M |
|               | DLF Park Place | 2.2 |               |                 |                  |               |                      |              | 988        |
| The Belaire   | 1.3            |     | 364           | 2007            | 2010             | 7,501         | 7,407                | 3,571        | 21         |
| The Magnolias | 2.6            |     | 290           | 2006            | 2009             | 11,066        | 5,898                | 8,966        | 38         |
| Royalton      | 0.2            |     | 76            | 2004            | 2007             | 712           | 3,264                | 2,632        | 9          |
| The Icon      | 1              |     | 364           | 2004            | 2007             | 3,025         | 3,151                | 2,747        | 8          |
| The Pinnacle  | 1.1            |     | 280           | 2004            | 2007             | 3,921         | 3,583                | 3,929        | 14         |
| The Summit    | 0.7            |     | 228           | 2003            | 2008             | 2,963         | 4,285                | 3,070        | 13         |
| <b>Total</b>  | <b>31.6</b>    |     | <b>14,604</b> |                 |                  | <b>63,964</b> | <b>2,024</b>         | <b>2,164</b> | <b>4.4</b> |

## PROJECTS UNDER CONSTRUCTION

| PROJECT NAME          | AREA (MN SQ FT) | START YEAR | END YEAR |
|-----------------------|-----------------|------------|----------|
| <b>Residential</b>    |                 |            |          |
| DLF Park Place        | 2.2             | 2007       | 2010     |
| The Belaire           | 1.3             | 2007       | 2010     |
| The Magnolias         | 2.5             | 2006       | 2009     |
| The Summit            | 0.7             | 2003       | 2008     |
| <b>Total</b>          | <b>6.7</b>      |            |          |
| <b>Commercial</b>     |                 |            |          |
| Silokhra, Gurgaon     | 4.9             | 2007       | 2010     |
| Cybercity Projects    | 4.5             | 2007       | 2008/9   |
| Kolkata (25 acres)    | 2.8             | 2008       | 2010     |
| Pune                  | 1.8             | 2006       | 2009     |
| Hyderabad             | 3.8             | 2006       | 2010     |
| Chennai               | 6.6             | 2006       | 2010     |
| Banglore              | 1.5             | 2007       | 2010     |
| Noida                 | 1.2             | 2007       | 2009     |
| <b>Total</b>          | <b>27.1</b>     |            |          |
| <b>Retail</b>         |                 |            |          |
| Mall of India         | 3.9             | 2007       | 2010     |
| Courtyard             | 0.51            | 2006       | 2008     |
| Promenade (DLF Place) | 0.5             | 2006       | 2008     |
| Emporio (DLF Place)   | 0.32            | 2006       | 2008     |
| Townsquare            | 1.5             | 2006       | 2009     |
| DLF South Court       | 0.3             | 2006       | 2009     |
| Jasola Mall           | 0.84            | 2006       | 2008     |
| Sikenderpur Mall      | 0.2             | 2006       | 2009     |
| NTC Mills             | 1.7             | 2006       | 2010     |
| <b>Total</b>          | <b>9.77</b>     |            |          |

Source: Company/Motilal Oswal Securities

| INCOME STATEMENT            |               | (RS MILLION)  |                |                |                |  |
|-----------------------------|---------------|---------------|----------------|----------------|----------------|--|
| Y/E MARCH                   | 2006          | 2007          | 2008E          | 2009E          | 2010E          |  |
| <b>Revenues</b>             |               |               |                |                |                |  |
| Apartments                  |               |               | 10,488         | 28,813         | 53,079         |  |
| Plots                       |               |               | 1,525          | 5,491          | 12,223         |  |
| Villas/Plots                |               |               | 0              | 0              | 3,220          |  |
| <b>Commercial</b>           |               |               |                |                |                |  |
| -Lease                      |               |               | 1,665          | 2,743          | 4,150          |  |
| -Sale                       |               |               | 59,909         | 68,483         | 47,742         |  |
| <b>Retail</b>               |               |               |                |                |                |  |
| -Lease                      |               |               | 4,346          | 11,406         | 17,308         |  |
| -Sale                       |               |               | 35,058         | 6,279          | 2,173          |  |
| Institutional Plots         |               |               | 106            | 112            | 2,184          |  |
| <b>Net Sales</b>            | <b>11,867</b> | <b>39,419</b> | <b>113,096</b> | <b>123,327</b> | <b>142,078</b> |  |
| <i>Change (%)</i>           | <i>91.9</i>   | <i>232.2</i>  | <i>186.9</i>   | <i>9.0</i>     | <i>15.2</i>    |  |
| Construction expenses       | 5,243         | 7,090         | 32,209         | 27,896         | 28,829         |  |
| Office & site establi. exps | 397           | 922           | 7,496          | 7,642          | 8,443          |  |
| <b>EBITDA</b>               | <b>5,088</b>  | <b>28,220</b> | <b>73,392</b>  | <b>87,788</b>  | <b>104,806</b> |  |
| <i>% of Net Sales</i>       | <i>42.9</i>   | <i>71.6</i>   | <i>64.9</i>    | <i>71.2</i>    | <i>73.8</i>    |  |
| Depreciation                | 361           | 571           | 828            | 1,090          | 1,380          |  |
| Interest                    | 1,685         | 3,076         | 1,575          | 0              | 0              |  |
| Other Income                | 553           | 922           | 382            | 5,498          | 7,548          |  |
| <b>PBT</b>                  | <b>3,595</b>  | <b>25,495</b> | <b>71,370</b>  | <b>92,196</b>  | <b>110,975</b> |  |
| Tax                         | 1,668         | 6,058         | 11,807         | 21,012         | 30,951         |  |
| <i>Rate (%)</i>             | <i>46.4</i>   | <i>23.8</i>   | <i>16.5</i>    | <i>22.8</i>    | <i>27.9</i>    |  |
| <b>Reported PAT</b>         | <b>1,927</b>  | <b>19,437</b> | <b>59,563</b>  | <b>71,184</b>  | <b>80,024</b>  |  |
| <i>Change (%)</i>           | <i>119.2</i>  | <i>908.7</i>  | <i>206.4</i>   | <i>19.5</i>    | <i>12.4</i>    |  |

E: MOST Estimates

## BALANCE SHEET

| Y/E MARCH                        | 2006          | 2007           | 2008E          | 2009E          | 2010E          |
|----------------------------------|---------------|----------------|----------------|----------------|----------------|
| Equity Capital                   | 379           | 3,059          | 3,408          | 3,408          | 3,408          |
| Preference Capital               | 0             | 9,498          | 0              | 0              | 0              |
| Reserves                         | 9,123         | 27,115         | 158,506        | 206,644        | 261,606        |
| <b>Net Worth</b>                 | <b>9,502</b>  | <b>39,672</b>  | <b>161,914</b> | <b>210,052</b> | <b>265,014</b> |
| Loans                            | 41,320        | 99,328         | 35,000         | 0              | 0              |
| <b>Capital Employed</b>          | <b>50,967</b> | <b>139,279</b> | <b>196,914</b> | <b>210,052</b> | <b>265,014</b> |
| Goodwill                         | 8,489         | 8,935          | 8,935          | 8,935          | 8,935          |
| Gross Fixed Assets               | 13,023        | 17,787         | 38,118         | 69,840         | 99,793         |
| Less: Depreciation               | 1,891         | 2,412          | 3,240          | 4,330          | 5,710          |
| <b>Net Fixed Assets</b>          | <b>11,132</b> | <b>15,375</b>  | <b>34,878</b>  | <b>65,510</b>  | <b>94,083</b>  |
| Capital WIP                      | 5,911         | 26,497         | 71,983         | 69,806         | 79,738         |
| Investments                      | 8,300         | 2,107          | 2,107          | 2,107          | 2,107          |
| <b>Curr. Assets</b>              | <b>35,604</b> | <b>128,794</b> | <b>149,346</b> | <b>159,542</b> | <b>185,831</b> |
| Inventory                        | 16,409        | 57,006         | 40,342         | 23,752         | 9,329          |
| Debtors                          | 6,580         | 15,195         | 14,669         | 14,956         | 16,523         |
| Cash & Bank Balance              | 1,950         | 4,155          | 7,631          | 109,955        | 150,964        |
| Loans & Advances                 | 10,642        | 52,371         | 86,703         | 10,879         | 9,014          |
| <b>Current Liab. &amp; Prov.</b> | <b>18,469</b> | <b>42,429</b>  | <b>61,400</b>  | <b>86,914</b>  | <b>96,745</b>  |
| <b>Net Current Assets</b>        | <b>17,135</b> | <b>86,365</b>  | <b>87,946</b>  | <b>72,628</b>  | <b>89,086</b>  |
| <b>Application of Funds</b>      | <b>50,967</b> | <b>139,279</b> | <b>196,914</b> | <b>210,052</b> | <b>265,014</b> |

E: M0St Estimates

## RATIOS

| Y/E MARCH                       | 2006       | 2007        | 2008E       | 2009E       | 2010E       |
|---------------------------------|------------|-------------|-------------|-------------|-------------|
| <b>Basic (Rs)</b>               |            |             |             |             |             |
| <b>EPS</b>                      | <b>8.1</b> | <b>12.7</b> | <b>35.0</b> | <b>41.8</b> | <b>47.0</b> |
| <i>Growth (%)</i>               | -87.5      | 56.2        | 175.1       | 19.5        | 12.4        |
| Cash EPS                        | 28.1       | 30.8        | 77.5        | 92.7        | 107.7       |
| Book Value                      | 50.1       | 25.9        | 95.0        | 123.3       | 155.5       |
| DPS                             | 0.0        | 1.3         | 7.0         | 8.4         | 9.4         |
| Payout (incl. Div. Tax.)        | 0.0        | 10.0        | 20.0        | 20.0        | 20.0        |
| <b>Valuation (x)</b>            |            |             |             |             |             |
| P/E (standalone)                | 70.1       | 44.9        | 16.3        | 13.7        | 12.1        |
| Cash P/E                        | 20.3       | 18.5        | 7.4         | 6.2         | 5.3         |
| EV/EBITDA                       | 248.4      | 37.8        | 13.6        | 9.8         | 7.8         |
| EV/Sales                        | 106.5      | 27.1        | 8.8         | 7.0         | 5.8         |
| Price/Book Value                | 11.4       | 22.0        | 6.0         | 4.6         | 3.7         |
| Dividend Yield (%)              | 0.0        | 0.2         | 1.2         | 1.5         | 1.6         |
| <b>Profitability Ratios (%)</b> |            |             |             |             |             |
| RoE                             | 16.2       | 49.0        | 36.8        | 33.9        | 30.2        |
| RoCE                            | 12.2       | 30.0        | 43.4        | 45.3        | 46.7        |
| <b>Leverage Ratio</b>           |            |             |             |             |             |
| Debt/Equity (x)                 | 4.3        | 2.5         | 0.2         | 0.0         | 0.0         |

E: MOST Estimates



## CASH FLOW STATEMENT

| Y/E MARCH                      | 2006           | 2007           | 2008E          | 2009E          | 2010E          |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| PBT before Extraordinary Items | <b>3,595</b>   | <b>25,495</b>  | <b>71,370</b>  | <b>92,196</b>  | <b>110,974</b> |
| Add : Depreciation             | 361            | 571            | 828            | 1,090          | 1,380          |
| Interest                       | 1,685          | 3,076          | 1,575          | 0              | 0              |
| Less : Direct Taxes Paid       | 1,668          | 6,058          | 11,807         | 21,012         | 30,951         |
| (Inc)/Dec in WC                | -16,545        | -67,432        | 10,738         | 117,642        | 24,551         |
| <b>CF from Operations</b>      | <b>-12,572</b> | <b>-44,348</b> | <b>72,704</b>  | <b>189,917</b> | <b>105,954</b> |
| (Inc)/Dec in FA                | -7,194         | -25,400        | -65,817        | -29,546        | -39,884        |
| (Pur)/Sale of Investments      | -7,900         | 6,193          | 0              | 0              | 0              |
| <b>CF from Investments</b>     | <b>-15,094</b> | <b>-19,207</b> | <b>-65,817</b> | <b>-29,546</b> | <b>-39,884</b> |
| (Inc)/Dec in Networth          | -767           | 13,044         | 76,072         | -6,819         | -6,819         |
| (Inc)/Dec in Debt              | 31,644         | 58,008         | -64,328        | -35,000        | 0              |
| Less : Interest Paid           | 1,685          | 3,076          | 1,575          | 0              | 0              |
| Dividend Paid                  | 0              | 2,216          | 13,580         | 16,230         | 18,245         |
| <b>CF from Fin. Activity</b>   | <b>29,192</b>  | <b>65,760</b>  | <b>-3,411</b>  | <b>-58,049</b> | <b>-25,065</b> |
| <b>Inc/Dec of Cash</b>         | <b>1,526</b>   | <b>2,205</b>   | <b>3,476</b>   | <b>102,321</b> | <b>41,005</b>  |
| Add: Beginning Balance         | 424            | 1,950          | 4,155          | 7,631          | 109,952        |
| Closing Balance                | 1,950          | 4,155          | 7,631          | 109,952        | 150,957        |

E: Most Estimates

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**Disclosure of Interest Statement**

|   | <b>DLF</b> |
|---|------------|
| 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         |

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