Company Flash

1 August 2008 | 8 pages

DLF (DLF.BO)

Buy: Steady Quarter, Relatively Insulated Play in Tough Times

- **Results beat expectations** — Revenues grew 24% YoY, with EBITDA up 6% on account of ~10ppts decline in margin due to change in mix with higher mid-income apts sales and no retail sale in the qtr; this was in-line with estimates. Net profit however grew 23% better than estimates, due to lower taxes.
- **Operationally a good one** — 1) sold ~4.77m sqft during the qtr, realizations up 5-8% QoQ, largely driven by mid-income housing and office sales 2) Avg lease rentals up 13% QoQ for commercial assets; 3) Area under construction was ~63m sqft (after delivery of 3msqft) vs. 62m sqft in 4QFY08; and 5) Good progress on hotels - 17 under construction, 2 to be operational by end of FY09.
- **Balance sheet remained healthy** — While net debt increased to Rs132bn vs. Rs103bn in Mar'08 – in-line with sector trend; debt/equity is healthy at 0.6x (vs most peers at ~1x). Debtors are intact at ~Rs76b, but for increased receivables from DAL this would have been lower; customer advances were down as well.
- **% PBT from sales to DAL flat YoY, but increased receivables a worry** — Sales to DAL contributed 40% of revenues and 47% of PBT in 1QFY09. However, higher receivables from DAL at Rs33.8b vs. Rs19.3bn in Mar'08 could be concerning, given the liquidity strained environment. DAL is said to be in process of raising capital, expected shortly though this remains contingent on capital flows; timely payback will be crucial for DLF's cash flows and growth.
- **Maintain Buy** — A good quarter, barring increased receivables from DAL. We believe DLF's strong balance sheet, good asset-geographic mix and execution track record makes it a relatively insulated play in these tough times.

Buy/Medium Risk	1M
Price (31 Jul 08)	Rs509.30
Target price	Rs585.00
Expected share price return	14.9%
Expected dividend yield	0.8%
Expected total return	**15.6%**
Market Cap	Rs868,271M US$20,438M

Price Performance (RIC: DLF.BO, BB: DLFU IN)

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	1,917	12.34	100.2	41.3	8.3	22.6	0.0
2007A	19,337	12.75	3.3	39.9	29.6	108.8	0.0
2008E	78,558	46.08	261.4	11.1	4.5	72.1	0.8
2009E	94,461	55.41	20.2	9.2	3.3	41.5	0.8
2010E	115,433	67.71	22.2	7.5	2.4	37.0	0.8

Source: Powered by dataCentral

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

[1]Citigroup Global Markets India Private Limited

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	41.3	39.9	11.1	9.2	7.5
P/E reported (x)	41.3	39.9	11.1	9.2	7.5
P/BV (x)	8.3	29.6	4.5	3.3	2.4
Dividend yield (%)	0.0	0.0	0.8	0.8	0.8
Per Share Data (Rs)					
EPS adjusted	12.34	12.75	46.08	55.41	67.71
EPS reported	12.34	12.75	46.08	55.41	67.71
BVPS	61.16	17.18	112.52	154.35	212.06
NAVps ordinary	na	na	na	na	na
DPS	0.10	0.01	4.00	4.00	4.00
Profit & Loss (RsM)					
Net operating income (NOI)	**5,154**	**15,918**	**100,671**	**129,712**	**155,016**
G&A expenses	-397	-1,051	-3,153	-2,838	-3,406
Other Operating items	-361	-591	-732	-750	-1,060
EBIT including associates	**4,396**	**14,276**	**96,787**	**126,124**	**150,550**
Non-oper./net int./except.	-801	11,114	-328	-176	3,361
Pre-tax profit	**3,595**	**25,389**	**96,459**	**125,948**	**153,911**
Tax	-1,668	-6,042	-17,534	-31,487	-38,478
Extraord./Min. Int./Pref. Div.	-10	-11	-367	0	0
Reported net income	**1,917**	**19,337**	**78,558**	**94,461**	**115,433**
Adjusted earnings	1,917	19,337	78,558	94,461	115,433
Adjusted EBIT	4,396	14,288	96,733	126,124	150,550
Adjusted EBITDA	4,757	14,866	97,518	126,874	151,610
Growth Rates (%)					
NOI	142.1	208.8	532.4	28.8	19.5
EBIT adjusted	225.9	225.0	577.0	30.4	19.4
EPS adjusted	100.2	3.3	261.4	20.2	22.2
Cash Flow (RsM)					
Operating cash flow	**-15,375**	**-39,232**	**-27,296**	**59,141**	**52,582**
Depreciation/amortization	361	578	785	750	1,060
Net working capital	-8,589	-62,932	-105,596	-36,070	-55,816
Investing cash flow	**-15,075**	**-19,136**	**-65,826**	**-35,344**	**-32,357**
Capital expenditure	-7,175	-25,329	-59,172	-35,112	-32,102
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**31,976**	**60,573**	**108,338**	**-27,758**	**-31,897**
Borrowings	31,644	58,007	23,282	-14,119	-14,848
Dividends paid	-16	-18	-6,819	-13,639	-17,048
Change in cash	**1,526**	**2,205**	**15,216**	**-3,961**	**-11,672**
Balance Sheet (RsM)					
Total assets	**69,436**	**181,237**	**400,421**	**441,610**	**534,103**
Cash & cash equivalent	1,950	4,155	19,371	15,410	3,738
Net fixed assets	17,043	41,851	100,058	99,247	130,289
Total liabilities	**59,881**	**145,596**	**190,717**	**164,410**	**158,519**
Total Debt	41,320	99,327	122,609	95,109	80,260
Shareholders' funds	**9,555**	**35,641**	**209,704**	**277,199**	**375,584**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	38.1	54.2	68.0	64.1	61.6
ROE adjusted (%)	22.6	108.8	72.1	41.5	37.0
ROA adjusted (%)	4.0	15.4	27.0	22.4	23.7
Net debt to equity (%)	412.0	267.0	49.2	28.8	20.4
Interest coverage (x)	2.8	4.8	32.7	33.3	47.2

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Figure 1. DLF 1QFY09 Results Summary (Rs Millions)

	1QFY09	1QFY08	YoY
Net Sales	38,106	30,738	24%
EBITDA	23,445	22,039	6%
EBITDA Margin	61.5%	71.7%	
Interest	541	1,077	-50%
Other Income	357	472	-24%
Depreciation	546	166	230%
PBT	22,715	21,268	7%
PAT before Min Int & Assoc	18,948	15,231	24%
PAT after Min Int & Assoc	18,640	15,155	23%

Source: Company Reports, Citi Investment Research

DLF

Company description

DLF is one of India's oldest real estate developers. Established in Delhi in 1946, it has continued to expand and diversify its real estate businesses, and is among the largest developers in India. It has historically built its businesses in Delhi and adjoining areas, know as the National Capital Region (NCR). DLF has diversified into other geographic locations over the past few years. These expansions are spread across India, with a focus on the Northern India belt, Kolkata, Mumbai, Chennai, and a number of other large and rapidly growing cities. DLF enjoys a strong brand franchise with a good track record in execution and delivery. This is the flagship company of the KP Singh family, with the founders holding an 88% stake. It is one of India's largest developers, with a diversified asset portfolio and an emerging pan-India presence.

Investment strategy

We rate DLF Buy/Medium Risk (1M), with a target price of Rs585. DLF's scale, large landbank across top-tier growth cities, execution record, de-leveraged balance sheet and disclosure standards differentiate it from its peers. Its diversified portfolio of ~751m sq ft is leveraged toward commercial/IT Parks/Retail mall assets, which should provide a good hedge in the near-term against the residential segment slowdown. The response to its recently launched mid-income housing has been encouraging. With DLF delivering on its promises, we see the recent correction as an enhanced opportunity to buy and believe the stock should be a core holding for exposure to the Indian real estate sector.

Valuation

Our target price of Rs585 is based on a 10% discount to our Mar09E NAV of Rs650. Our NAV includes Rs563 for the development portfolio and Rs87 for other asset holdings and new JV businesses (Rs61/share for the existing 9m sq ft of leased assets and 7.2m sq ft of plots and Rs26/share for DLF's share in construction and hotel JVs). The lower discount vs. peers (25-45%) is attributed to: 1) leverage towards both office/IT Parks and retail assets provide access to capital in a liquidity-strained market; 2) a relatively de-leveraged balance sheet; 3) a strong execution track record; and 4) the company is a benchmark for disclosure standards. We believe an NAV-based valuation methodology is most appropriate for developers, as it factors in the varied development projects and the spread-out time frame. Our March 2009E NAV is based on: 1) the current market prices; 2) development volume of 677m sq ft; 3) a cap rate of 10% for commercial/IT Park, IT SEZs in Super Metros and Metros, and 11% for other locations; 4) development portfolio is executed over a 11-13-year period; 5) average cost of capital of 16%; and 6) a tax rate of 25%.

Risks

We rate DLF Medium Risk, as opposed to the Speculative Risk rating assigned by our quantitative risk-rating system to stocks that have less than one year's trading history. The key reasons for assigning a Medium Risk rating include: 1) the company's robust business model; 2) pan-India land bank with initiatives to de-risk the business model through new business JVs; and 3) relatively healthy cash flows, at a time when most developers are facing funding constraints. The main risks to our investment thesis and target price include: 1) The company's asset sale strategy remains contingent on capital flows; 2) Response to DLF's new mid-income project launches expected in FY09 is crucial for growth ahead and cash flows; 3) Slowdown in the IT/ITES industry could lead to a decline in demand for commercial real estate; and 4) Slowdown in capital inflows or measures to regulate FDI in the real estate sector.

Appendix A-1

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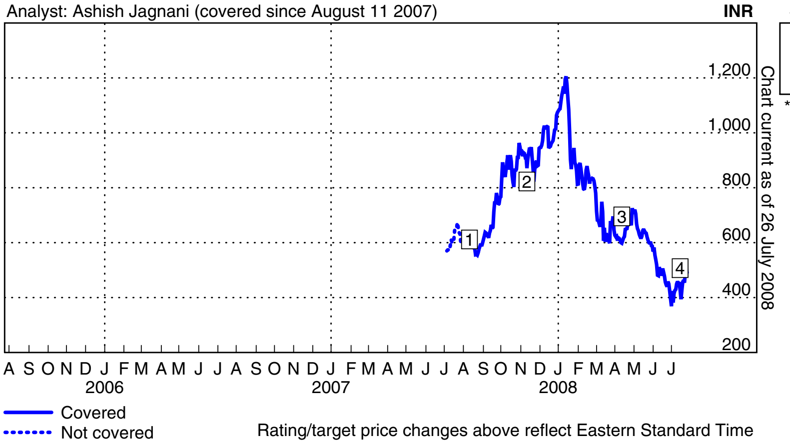
DLF (DLF.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Ashish Jagnani (covered since August 11 2007)



#	Date	Rating	Target Price	Closing Price
1:	10 Aug 07	1M	725.00	584.45
2:	12 Nov 07	1M	*1,046.00	871.20
3:	11 Apr 08	1M	*846.00	598.00
4:	15 Jul 08	1M	*585.00	426.95

*Indicates change.

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