

COMPANY QUICK COMMENT

We noted in our upgrade of DLF Ltd. to Buy yesterday that it planned to sell some assets including leased office space. An article in today's Economic Times mentions some specific assets that DLF is in talks with to sell and raise INR 13bn. According to management, this sale could close in the next three months. In our view, this could give a significant boost to cash flows and enable sentiment for DLF's shares to change towards the positive. It also shows that monetization of large commercial properties in this sector is starting off and can ease the cash flow strain.

Price target: 270.0 INR

Price (30 Jun 2011): 210.45 INR

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Publish Date: 01 Jul 2011

Asset sales close to starting off

As per an article in today's Economic Times, DLF plans to sell its shareholding of 70% each in an IT SEZ in Pune and an IT park in Noida for a total of INR 13bn. Private equity major Blackstone is mentioned as the likely buyer for its 70% stake in the Pune IT SEZ for INR 9bn while a high net worth investor (HNI) is likely to purchase its stake in the Noida IT Park for INR 4bn

The IT SEZ in Pune is spread over an area of 5m sq. ft. with 1.8m sq. ft. currently operational with tenants like Cognizant, TCS, and Barclays among others. Given the significant under-construction and unleased area in this project, the per sqft value paid would tend to be low. In our view, the Noida IT park is spread over 1.3m sq. ft. with CSC as the major tenant and significant space (unknown amount) unleased still.

Management has not commented on the exact figures and timelines involved, but are at an advanced stage of due diligence and is likely to close the deals in the next three months.

We believe that these transactions are important on two accounts: 1) They can provide DLF with INR 13bn of cash flow to bring down its debt, which should boost sentiment towards the stock plus increase confidence in DLF's claims to sell its non-core assets. 2) A significant problem in the sector, which was that of monetizing large commercial assets created by developers in the last five years, is being addressed. The lack of monetization avenues for these assets was creating cash flow issues for developers and if this trend picks up pace it could ease the debt concerns for the sector.

We maintain our Buy rating on the stock with a target price of INR 270 per share. It is trading at a 22% discount to our NAV, which we think is attractive.

Valuation Methodology and Investment Risks: We value DLF Ltd using a net asset value (NAV) methodology, which is a DCF valuation of the development potential of the company's land reserves and developed property. We do not attach any premium or discount to this NAV to arrive at our target price. Our target price of INR 270 per share is based on INR 219 for the land bank NAV, INR 29 for non-core assets and land, and INR 21 for its 57% stake in DLF Cyber City Developers Ltd(DCCDL).Downside risks include: 1) further rapid increases in interest rates; 2) below-expectation growth in the economy; 3) execution lagging behind expectations; 4) a credit-crunch like environment resulting in developers being unable to refinance their debt; 5) equity dilution to repay debt, and 6) inability to sell non-core assets.

Note: Ratings and Price Targets are as of the date of the most recently published report (<http://go.nomuranow.com/research/globalresearchportal>) rather than the date of this email.

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Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
DLF	DLFU IN	210.45 INR	30 Jun 2011	Buy	

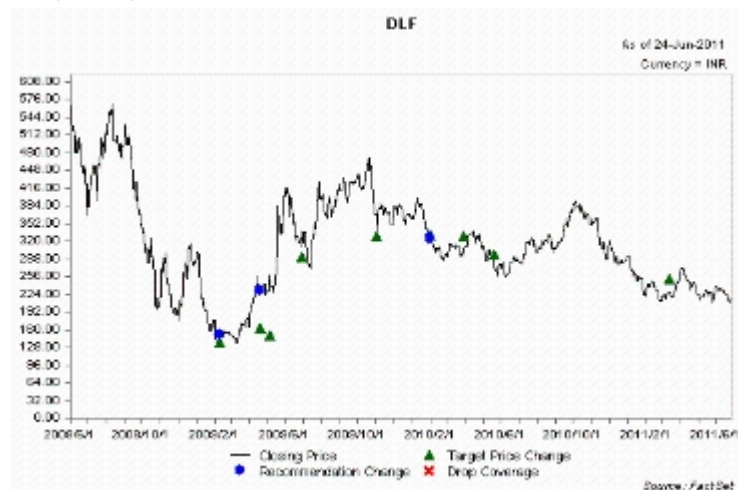
Previous Rating

Issuer name	Previous Rating	Date of change
DLF	Neutral	29 Jun 2011

DLF (DLFU IN)

210.45 INR (30 Jun 2011) Buy

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
14-Mar-2011		253.00	228.30
20-May-2010		296.00	271.05
29-Mar-2010		330.70	299.15
02-Feb-2010		331.00	326.20
02-Feb-2010	Neutral		326.20
02-Nov-2009		330.00	370.00
29-Jun-2009		292.00	338.00
06-May-2009		152.00	245.95
20-Apr-2009		164.00	230.80
20-Apr-2009	Reduce		230.80
11-Feb-2009		138.00	150.85
11-Feb-2009	Neutral		150.85

For explanation of ratings refer to the stock rating keys located after chart(s)

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Risks that may impede the achievement of the target price Downside risks include: 1) further rapid increases in interest rates; 2) below-expectation growth in the economy; 3) execution lagging expectations; 4) a credit-crunch like environment resulting in developers being unable to refinance their debt; 5) equity dilution to repay debt and 6) inability to sell non-core assets.

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As at 31 March 2011.

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS

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A **'Sell'** recommendation indicates that downside is more than 20%.

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