

Morgan Stanley India Company
Private Limited+

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Stock Rating
Underweight-V

Industry View
In-Line

DLF Limited

Conference Call Highlights – Capital Prudence and Prolonged Execution

Quick Comment – DLF management emphasized its focus on deploying capital judiciously (given the adverse macro and tight credit markets), due to which it targets to execute projects already committed to customers (pre-sold and pre-leased). New investment projects (not pre-committed), such as office/retail properties and hotels will be executed on a prolonged timelines basis, unless macro headwinds moderate.

DAL Update: DLF has recognized as sales roughly 70% of the total portfolio (20-odd msf), and has Rs48bn pending payment. Lehman's stake (convertible equity) in DAL has been bought by Symphony (now 60% stakeholder). So far, 4.7 msf has been handed over to tenants and another 5 msf is targeted to be handed over by March 2009, which together could generate Rs6bn in rentals p.a. DLF targets to generate debt/equity linked funding for DAL by end F2009. If the cap rate expands beyond 9%, the hit would be borne by DAL promoters.

Going beyond DAL: As and when DAL sales (30% of the portfolio) is exhausted (four to five quarters), DLF targets to bridge the earnings gap (now 50% contributed by DAL) through 1) another monetizing vehicle, 2) scaling up home business, and 3) higher rental income.

Immediate focus will be new launches of mid-income housing and commercial complexes, which generate upfront customer advances. It targets to deliver 20-25 msf of projects p.a.

Execution update: We believe that YTD construction starts have been modest – 4.6 msf across verticals – and the stock of ongoing projects is 63 msf, of which commercial is 35.6 msf (which will now get executed over more than three years). Execution of hotel portfolio can be phased out by 12-18 months. QoQ, DLF's headcount is down (natural attrition, no replacement) 10-12% to 3,266.

Key Ratios and Statistics

Reuters: DLF.BO Bloomberg: DLFU IN

India Property

Price target	Rs467.00
Upside to price target (%)	85
Shr price, close (Nov 3, 2008)	Rs253.05
Mkt cap, curr (mn)	US\$8,750
52-Week Range	Rs1,225.00-158.00
Sh out, dil, curr (mn)	1,704
Avg daily trading volume (mn)	US\$17

Fiscal Year ending	03/07	03/08e	03/09e	03/10e
ModelWare EPS (Rs)	12.69	46.03	55.45	68.78
Consensus EPS (Rs)§	12.08	45.99	50.91	59.50
Revenue (Rs mn)**	39,233	144,218	190,201	237,612
EBITDA (Rs mn)	29,129	98,387	121,786	151,208
ModelWare net inc (Rs mn)	19,413	78,461	94,510	117,224
P/E	44.9	14.0	4.6	3.7
P/BV	28.9	6.0	1.6	1.2
Div yld (%)	0.0	1.1	3.3	4.1

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by FactSet Estimates.

** = Based on consensus methodology

e = Morgan Stanley Research estimates

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Conference Call Highlights

- Balance Sheet Update:** Net gearing stood at 61% during F2Q09, Rs22-23bn of which is maturing in the next six months. Receivables moved up 28% from the previous quarter to Rs97.5bn (Rs48bn DAL receivables). During the quarter, DLF capitalized interest up to Rs4.1bn (expensed Rs469mn). The marginal increase in capital this quarter (from Rs13bn to Rs17bn) was due to the issuance of preference shares in one of its subsidiaries.
- Construction and Delivery Update:** DLF currently has 63 msf under development. The company plans to deliver 20-25 msf p.a.
- DAL Update:** Sales to DAL for the quarter amounted to Rs14.7bn. According to management, DAL plans to unwind its outstanding payments (Rs48bn receivables) to DLF through the rent-bearing assets (approximately R6bn on 10 msf by March 2009; average rent Rs50-60 psf p.m.) and raising debt (DAL is currently debt free). In addition, DAL continues to explore options to raise equity-linked funding. Separately, DAL investors now include only DE Shaw and Symphony (40% and 60%, respectively). DAL's equity investment stands at US\$1.1bn (at Rs41/USD). From DLF's point of view, sales to DAL will continue for the next three to four quarters. Final delivery will be done by end of F2010.
- Future Strategy – Homes/Commercial:** DLF plans to continue to shift its focus toward mid-income housing and commercial complexes. The company plans to push back projects where there are no commitments to customers and where the income opportunity is 18-24 months away. The SBM project located in Delhi will now be monetized in 2009 (mixed-use development).
- Power:** DLF also plans to increase its investment in the power business over the next couple of years (approximately Rs15-20bn already invested). DLF generated Rs1.3bn in income from the power business and Rs1.18bn from rental income.
- On Hotels:** The company has acquired land and is in the advanced stages of planning and engineering. The execution will be subject to financing tie up, roughly Rs5-6bn p.a.

Exhibit 1

DLF: Sales Booked in the Quarter (msf)

Business	F1Q08	F2Q08	F3Q08	F4Q08	F1Q09	F2Q09
	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Commercial*	4.3	2.5	3.3	3.3	2.4	2.2
Retail*	0.7	1.1	0.2	1.9	0.9	0.5
Residential	0.5	0.1	1.4	8.0	2.1	2.8
Total	5.5	3.6	4.8	13.2	5.5	5.5

Source: Company data, Morgan Stanley Research
Note: * Includes Leases booked during the quarter

Exhibit 2

DLF New Launches (msf)

Business	F1Q08	F2Q08	F3Q08	F4Q08	F1Q09	F2Q09
	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Commercial	5.1	7.1	6.8	(0.9)	1.2	-
Retail	1.2	0.5	(1.0)	0.3	1.1	-
Residential	-	-	0.6	4.9	2.1	0.3
Total	6.4	7.6	6.3	4.2	4.3	0.3

Source: Company data, Morgan Stanley Research
Note: Negative numbers indicate change in Business Proposition (Retail to Office or vice-versa)

Company Description

DLF is a prominent Indian real estate developer with a sizable land bank totaling 753 msf of planned projects spread across the country. The company is involved in residential, commercial, retail, hotels, infrastructure and SEZ developments.

India Property

Industry View: In-Line

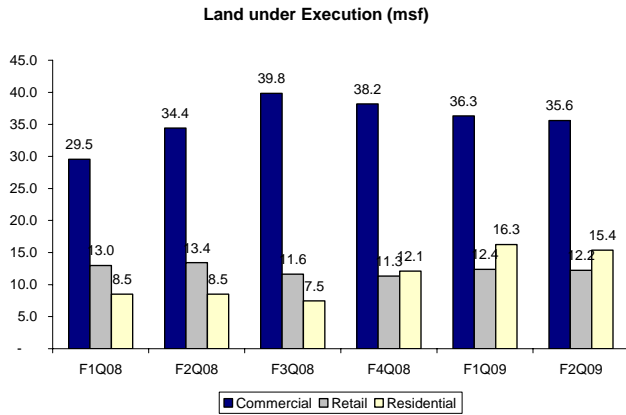
Near-term market slowdown driven by high property prices and interest rates in an otherwise longer-term strong demand expectation underline our sector view

MSCI Country: India

Asia Strategist's Recommended Weight: 2.7%
MSCI Asia/Pac All Country Ex Jp Weight: 6.5%

Exhibit 3

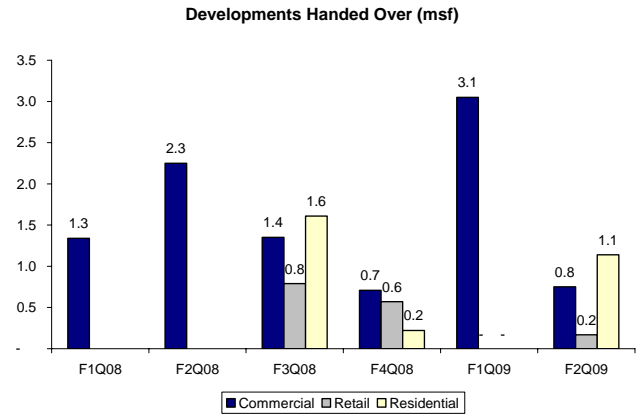
DLF: Land Under Execution for the Quarter (msf)



Source: Company data, Morgan Stanley Research

Exhibit 4

DLF: Developments Handed Over (msf)



Source: Company data, Morgan Stanley Research

Exhibit 5

DLF: DAL Sales and PBT Progression

Rs Million	F1Q08	F2Q08	F3Q08	F4Q08	F1Q09	F2Q09
Sales	16,540	13,870	20,570	18,450	15,570	14,700
PBT	9,840	9,840	14,350	12,990	10,750	10,217

Source: Company data, Morgan Stanley Research

Note: Fiscal 2008 Total Sales to DAL has been revised to Rs53450 mln

Exhibit 6

DLF: Quarterly Results

Rs Mn Period ending	F2Q09 30-Sep-08	F2Q08 30-Sep-07	% Chg yoy	F1Q09 30-Jun-08	% Chg qoq	Comments
INCOME						
Sales and other receipts	37,444	32,499	15.2%	38,106	-1.7%	Non-DAL Revenues of approx. Rs24 bln (70% Homes, 30% Commercial Complexes) Rental Income of Rs 1180 mln in the quarter
EXPENDITURE						
Cost of land, plots and constructed properties	11,806	7,586	55.6%	11,184	5.6%	
Cost of Revenue - other	1,057	741	42.7%	876	20.6%	
Staff Cost	582	606	-3.9%	1,025	-43.2%	
Other Expenditure	1,829	930	96.6%	1,577	16.0%	
Total	15,274	9,863	54.9%	14,662	4.2%	
Operating Income	22,170	22,637	-2.1%	23,445	-5.4%	
Other Income	958	993	-3.6%	357	168.1%	
Finance Charges	469	36	1189.0%	541	-13.3%	Rs4.1 bln interest cost capitalized
Depreciation	505	110	360.3%	546	-7.5%	
PBT	22,154	23,484	-5.7%	22,715	-2.5%	
Total Taxes	2,813	3,301	-14.8%	3,766	-25.3%	
Profit before Minority Interest	19,341	20,182	-4.2%	18,948	2.1%	
Minority Interest	75	(9)	NM	107	-30.5%	
Profit/ (Loss) Assoc	87	(6)	NM	(201)	NM	
Net Profit	19,354	20,186	-4.1%	18,640	3.8%	Rs22.7 bln - MS Estimate
GPM (%)	65.6%	74.4%	-8.7%	68.4%	-2.7%	
OPM (%)	59.2%	69.7%	-10.4%	61.5%	-2.3%	
NPM (%)	51.7%	62.1%	-10.4%	48.9%	2.8%	
Effective Tax Rate (%)	12.7%	14.1%	-1.4%	16.6%	-3.9%	

Source: Company data, Morgan Stanley Research

Exhibit 7

DLF: Balance Sheet Progression

Rs Mn Period ending	F4Q07 Mar-07	F1Q08 Jun-07	F2Q08 Sep-07	F3Q08 Dec-07	F4Q08 Mar-08	F1Q09 Jun-08	F2Q09 Sep-08
Shareholders' funds							
Capital	12,557	12,905	12,908	12,905	12,905	12,905	17,369
Reserves & Surplus	22,992	125,273	145,832	163,953	183,977	204,326	223,761
Minority Interests	92	168	1,364	3,843	3,895	4,069	4,771
Loan Funds	99,327	103,466	77,854	92,403	122,771	142,209	146,731
Deferred tax liabilities (net)	197	210	357	463	359	356	(59)
Liabilities	135,165	242,022	238,315	273,567	323,907	363,865	392,573
Net Debt	95,172	8,774	59,922	84,643	101,349	132,194	133,405
Fixed assets							
Gross block	18,044	16,928	22,122	24,105	51,626	53,170	55,936
Less: Depreciation	2,412	2,572	2,743	2,948	3,435	4,064	4,716
Net Block	15,632	14,356	19,379	21,157	48,191	49,106	51,220
Capital Work in Progress	26,219	27,105	29,746	32,778	51,840	61,050	75,293
Investments	2,107	2,196	32,834	13,489	9,102	14,211	11,493
Goodwill on consolidation	8,935	8,935	16,298	16,223	20,931	21,916	21,916
Current assets, loans and advances	128,344	245,549	198,625	243,415	266,001	287,072	314,974
Stocks	56,800	62,085	74,177	94,272	94,544	102,832	101,671
Sundry Debtors	15,057	37,478	38,936	64,790	76,106	76,052	97,535
Cash and bank balances	4,155	94,692	17,932	7,760	21,422	10,015	13,326
Other current assets	74	110	256	215	243	280	683
Loans and advances	52,258	51,184	67,324	76,378	73,686	97,893	101,759
Current liabilities and provisions	46,072	56,119	58,567	53,495	72,158	69,490	82,323
Liabilities	33,124	37,172	36,511	32,356	42,640	36,380	45,631
Provisions	12,948	18,947	22,056	21,139	29,518	33,110	36,692
Net current assets	82,272	189,430	140,058	189,920	193,843	217,582	232,651
Assets	135,165	242,022	238,315	273,567	323,907	363,865	392,573

Source: Company data, Morgan Stanley Research

Exhibit 8

DLF Land Bank Progress (msf)

Location/Business	F1Q08 <i>Jun-07</i>	F2Q08 <i>Sep-07</i>	F3Q08 <i>Dec-07</i>	F4Q08 <i>Mar-08</i>	F1Q09 <i>Jun-08</i>	F2Q09 <i>Sep-08</i>	Addition/Deletions - F4Q08
Super Metros							
Office	62	58	53	64	63	63	-
Retail	35	35	31	33	33	33	-
Super Luxury	4	4	4	4	4	4	-
Luxury	38	38	40	33	33	32	(1)
Mid Income/ Villas/ Plots	109	121	129	113	113	113	-
Hotel/ Convention Centre/ Service Apartment	-	-	7	4	4	4	-
Institutions	5	-	-	-	-	-	-
Super Metros Total	253	257	264	251	250	249	(1)
Metros							
Office	25	42	71	70	70	69	(1)
Retail	28	41	35	36	36	36	-
Super Luxury	-	-	-	-	-	-	-
Luxury	-	7	6	6	6	6	-
Mid Income/ Villas/ Plots	139	243	230	231	231	231	-
Hotel/ Convention Centre/ Service Apartment	-	-	4	2	3	3	-
Institutions	14	-	-	-	-	-	-
Metros Total	206	333	346	345	346	345	(1)
Tier - I							
Office	27	30	21	26	23	23	-
Retail	12	14	13	14	13	13	-
Super Luxury	-	-	-	-	-	-	-
Luxury	2	2	1	1	1	1	-
Mid Income/ Villas/ Plots	69	59	67	73	76	76	-
Hotel/ Convention Centre/ Service Apartment	-	-	4	10	10	10	-
Institutions	-	-	-	-	-	-	-
Tier - I Total	110	105	106	123	123	123	-
Tier - II							
Office	11	11	6	5	5	5	-
Retail	15	16	9	9	10	10	-
Super Luxury	-	-	-	-	-	-	-
Luxury	1	-	-	-	-	-	-
Mid Income/ Villas/ Plots	19	15	14	16	19	19	-
Hotel/ Convention Centre/ Service Apartment	-	-	2	2	2	2	-
Institutions	-	-	-	-	-	-	-
Tier - II Total	46	43	31	32	36	36	-
TOTAL							
Office	125	141	151	165	161	160	(1)
Retail	90	106	88	92	92	92	-
Super Luxury	4	4	4	4	4	4	-
Luxury	41	47	48	40	40	39	(1)
Mid Income/ Villas/ Plots	336	439	440	433	439	439	-
Hotel/ Convention Centre/ Service Apartment	-	-	17	18	19	19	-
Institutions	19	-	-	-	-	-	-
GRAND TOTAL	615	738	748	751	755	753	(2)

Source: Company data, Morgan Stanley Research

Note: As on 31st March 2008, Super Metros -- Delhi Metropolitan Region & Mumbai Metros -- Chennai, Bangalore, Kolkata. Tier I -- Chandigarh, Pune, Goa, Cochin, Nagpur, Hyderabad, Coimbatore & Bhubneshwar Tier-II -- Vadodra, Ghandhi Nagar, Ludhiana, Amritsar, Jalandhar, Sonapat, Panipat, Lucknow, Indore & Shimla.

November 3, 2008

DLF Limited

Exhibit 9

Real Estate Valuation Parameters: Indian Companies

Prices as of November 3, 2008	Price	Mkt Cap	EPS			P/E			P/B		NAV/Share	% (Dis)/Prem
India Companies	(Rs)	(Rs. mn.)	F2008	F2009E	F2010E	F2008	F2009E	F2010E	F2008	F2009E	F09	F08 NAV
DLF#	253	431,294	46.0	55.5	68.8	14.0	4.6	3.7	2.3	1.6	519	-51.3%
Ansal Properties	47	5,295	15.3	25.1	34.2	3.1	1.9	1.4	0.5	0.4		
Unitech#	49	79,545	10.2	11.9	13.6	27.0	4.1	3.6	12.5	1.5	173	-71.6%
Mahindra Lifespace Developers	188	7,670	16.3	23.2	45.1	11.5	8.1	4.2	0.9	0.8		
Peninsula Land	24	6,561	4.7	7.2	11.6	5.0	3.3	2.0	0.7	0.5		
Parsvnath Developers Ltd.#	45	8,358	24.0	26.5	32.1	8.7	1.7	1.4	0.5	0.4	273	-83.4%
Sobha Developers Ltd.#	114	8,329	32.3	37.0	46.2	18.1	3.1	2.5	0.8	0.7	524	-78.2%
Puravankara Projects Ltd.	50	10,682	11.2	13.3	17.3	4.4	3.8	2.9	0.9	0.8		
Housing Development & Infrastructure Ltd.	138	38,128	51.2	57.3	75.7	2.7	2.4	1.8	1.0	0.8		
AIM Listed companies	(GBp)	(£mn)										
Unitech Corporate Parks*	11	40									117	-90.6%
Hirco PLC*	92	68										
Ishaan*	33	68										
Average						5.6	4.7	3.8	1.8	1.3		

Source: Company data, Morgan Stanley Research

*Prices in Pence as on Oct 31, 2008, Mkt cap in £mn, # = Morgan Stanley Research estimates; all others are FactSet Consensus; E= estimates,


Exhibit 10

Real Estate Valuation Parameters: Regional Companies

3-Nov-08	Share	Mkt Cap	P/E			P/B		NAV/	Disc to	Fwd	Disc to
Company	Price	US\$M	2007	2008E	2009E	2008E	2009E	share	NAV	NAV	fwd NAV
China Property Stock Comparables											
China Vanke Co., Ltd.	5.92	8,874	39.8	7.5	5.0	1.8	1.4	7.9	-25%	13.6	-56%
China Overseas Land & Inv.*	8.95	9,028	14.2	11.5	8.8	2.0	1.7	NA		NA	
Country Garden Holdings Company Limited	1.34	2,829	12.4	5.0	4.9	0.9	0.8	4.2	-68%	2.8	-52%
Guangzhou R&F Properties	3.75	1,559	15.8	3.0	2.9	0.6	0.5	17.7	-79%	12.8	-71%
China Resources Land*	7.94	4,829	19.3	18.7	12.1	0.9	1.0	NA		NA	
Shimao Property	4.33	1,843	14.8	3.7	4.6	0.5	0.5	13.5	-68%	9.3	-53%
Agile Property	2.64	1,276	22.9	4.2	4.0	0.9	0.8	11.1	-76%	7.8	-66%
KWG Property Holding Limited	1.63	546	10.1	4.2	3.7	0.4	0.3	8.9	-82%	7.2	-77%
Shanghai Forte Land	0.96	313	14.4	3.3	3.5	0.4	0.4	5.0	-81%	3.2	-70%
China Aoyuan Property Group Limited	0.74	229	12.4	13.5	11.9	0.3	0.3	5.9	-87%	7.4	-90%
HK listed	Simple Average		17.6	7.5	6.2	0.9	0.8				
HK Property Stock Comparables											
SHK Properties	70.50	23,320	11.1	10.1	12.4	1.2	0.8	132.6	-47%	119.50	-41%
Hang Lung Properties Ltd.	18.40	9,841	16.9	7.9	15.0	1.6	1.1	27.1	-32%	26.3	-30%
Sino Land	6.70	4,141	19.3	22.2	4.9	1.3	0.5	19.5	-66%	16.9	-60%
Hongkong Land	2.69	6,454	47.0	13.7	9.5	0.5	0.5	5.7	-53%	5.2	-48%
Hysan Development	12.68	1,721	20.2	16.6	13.0	0.4	0.4	33.9	-63%	29.2	-57%
Great Eagle Holdings	8.35	644	30.5	5.6	4.0	0.2	0.2	52.2	-84%	48.1	-83%

Source: Company data, Morgan Stanley Research

*= FactSet Consensus; all others Morgan Stanley Estimates; E=estimates

	<p>Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.</p>
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(as of October 31, 2008)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	Total IBC	% of % of Rating Category
Overweight/Buy	869	39%	275	42%	32%
Equal-weight/Hold	983	44%	286	44%	28%
Underweight/Sell	403	18%	89	14%	22%
Total	2,255		650		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V) - We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Stock Price, Price Target and Rating History (See Rating Definitions)

DLF Limited (DLF.BO) - As of 11/3/08 in INR
Industry : India Property



Stock Rating History: 1/31/07 : NA; 10/17/07 : U/I

Price Target History: 10/17/07 : 828; 4/24/08 : 577; 8/3/08 : 467

Source: Morgan Stanley Research Date Format: MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
 Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View) ♦
 Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAU)
 Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAU)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Other Important Disclosures

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For a discussion, if applicable, of the valuation methods used to determine the price targets included in this summary and the risks related to achieving these targets, please refer to the latest relevant published research on these stocks.

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November 3, 2008
DLF Limited

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Industry Coverage:India Property

Company (Ticker)	Rating (as of)	Price (11/03/2008)
Sameer Baisiwala, CFA		
DLF Limited (DLF.BO)	U-V (10/17/2007)	Rs253.05
Parsvnath Developers Limited (PARV.BO)	U (06/09/2008)	Rs45.25
Sobha Developers Ltd. (SOBH.BO)	E (06/02/2008)	Rs114.25
Unitech Corporate Parks Plc (UCP.L)	O (02/02/2007)	11p
Unitech Limited (UNTE.BO)	U-V (09/11/2008)	Rs49

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