

# DLF Universal Limited

## The third coming

### Big issue; bigger concerns

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DLF Universal Ltd's draft red herring prospectus (DRHP) dated March 29, 2007 got SEBI's approval recently, and the company has decided to proceed with the IPO. To understand the company's progression since it filed its first DRHP on May 11, 2006, we compared the information in the two documents and picked up the main issues regarding the company's business and valuation.

## Land bank

### Substantial portion of new addition is from nascent West Bengal project

The land bank as per the earlier DRHP was valued by property consultancy companies to be in the range of INR 772-853bn.

**Figure 1: Land bank as per the earlier DRHP**

Status	Acreage (acres)	Developable area (m sqft)
Under development	1,372	102
Under acquisition	2,893	118
<b>Total</b>	<b>4,265</b>	<b>220</b>

Source: Company

In the recent DRHP, DLF mentions 10,255 acres of land bank, as of November 30, 2006, with 574m sqft of developable area (see Figure 2).

**Figure 2: Land bank as per the recent DRHP**

	Acreage (acre)	% of Total acreage	Developable area (m sqft)	% of Total developable area
Owned by DLF or subsidiaries	1,160	11.3	116	20.2
Land with sole development rights	4,575	44.6	217	37.9
MOU / agreement to acquire / letter of acceptance	3,685	35.9	201	35.1
Joint development agreement	718	7.0	29	5.1
Proportionate interest through JV	117	1.1	10	1.8
<b>Total</b>	<b>10,255</b>	<b>100.0</b>	<b>574</b>	<b>100.0</b>

Source: Company

According to the prospectus, the land bank increased by 5,990 acres of land, of which 2,178 acres (about 36%) belongs to the Dankuni project. The project faces a lot of uncertainty, given the recent controversies on land acquisition in West Bengal (WB). Dankuni is on the outskirts of Kolkata between the Durgapur Express Highway and the Delhi Road, about 20km from the Howrah Station. The project, in association with the Kolkata Municipal Development Corporation, comprises a township and industrial hub of over 4,840 acres. About 1,872 acres have been reserved for housing and 771 acres for the textile, food processing and engineering industries. The management asserts an investment of INR 330bn has to be made over the next 15 years for this project. A March 6 media report stated only 156 acres of the total 4,840 acres had been served the notice for acquisition.

### DLF shifts focus from commercial to residential development

In the earlier DRHP, 64.5% of the total developable area was set aside for residential development. This has gone up 67% now. There is a major de-focus on commercial development, which is down from 26% of total developable area in the earlier DRHP to 15% now.

**Figure 3: Different types of developable area**

Type of development	As on April 30, 2006	As on November 30, 2006
	Area (m sqft)	Area (m sqft)
Plots	-	46
Residential	140	384
Commercial	56.8	88
Retail	22.5	56
<b>Total</b>	<b>217.3</b>	<b>574</b>

Source: Company

### Area under development shows a surprising dip

A surprising aspect is that while the earlier DRHP listed completed residential area of 21.7m sqft as on April 30, 2006, the recent DRHP puts it at 17m sqft, as on November 30, 2006. DLF had also completed developing plots of 195m sqft area as per the recent DRHP while the earlier one was quiet on this aspect. The area under development has also reduced drastically.

**Figure 4: Comparison of completed and projected developments** (m sqft)

	Completed development		Projects under development		Planned projects	
	Apr 30, 06	Nov 30, 06	Apr 30, 06	Nov 30, 06	Apr 30, 06	Nov 30, 06
Plots	-	195	-	-	-	46
Residential	21.6	17	44.4	9	95.6	375
Commercial	4.7	6	40.9	26	15.9	62
Retail	2.3	2	16.3	11	6.2	45
<b>Total</b>	<b>28.6</b>	<b>220</b>	<b>101.6</b>	<b>46</b>	<b>117.7</b>	<b>528</b>

Source: Company

### Huge land bank in NCR & Kolkata poses a concentration risk

More than 50% of the land bank is concentrated in NCR, mainly in and around Gurgaon. About 23% of the total land bank is in Kolkata, 90% of which is formed by the Dankuni project.

**Figure 5: Region-wise land reserves**

Area	Land reserves (acre)	Total (%)
NCR	5,269	51.4
Kolkata	2,331	22.7
Goa	524	5.1
Chandigarh	433	4.2
Pune	385	3.8
Indore	265	2.6
Bangalore	242	2.4
Lucknow	200	2.0
Nagpur	153	1.5
Chennai	113	1.1
Shimla	102	1.0
Hyderabad	40	0.4
Mumbai	22	0.2
Others	176	1.7
<b>Total</b>	<b>10,255</b>	<b>100.0</b>

Source: Company

The concentration of the land bank in Gurgaon (NCR) makes the company vulnerable to certain risks:

- **Absorption risk:** DLF plans to sell 20.8m sqft of residential space in Gurgaon alone and 69.8m.sqft across India between FY07 and FY09. We note that in the last four months (from December 1, 2006 to March 26, 2007) the company has managed to sell just 0.6m sqft of residential space. Also, the three projects in progress in Gurgaon (Park Place, Belaire, and Magnolias), which were launched in the last 12-24 months have 6.0m sqft cumulative area, out of which 3.71m sqft have been sold.
- **Gurgaon masterplan:** The new draft masterplan of Gurgaon-Manesar (Gurgaon-Manesar Urban Complex Plan 2021) has drastically increased the land available for housing in the area. While the old masterplan encompassed an area of 9,881 hectares, the new one covers 33,726 hectares of which 14,930 hectares will be reserved for residential use. This could negatively affect the prices of land in the area.

### Payments due for the land are higher

The balance payment due for the land, for which only partial payment has been made, is INR 52bn, as of December 31, 2006. DLF has entered into arrangements to acquire or develop 556 acres in NCR, Chandigarh, Ahmedabad, Gandhinagar and Chennai, between December 1, 2006 and February 28, 2007, and the balance payment due is INR 10.6bn. Hence, the current outstanding payment is INR 62.6bn as compared to INR 28.7bn in the earlier DRHP.

## IPO proceeds usage and IPO size

**Figure 6: Usage of IPO proceeds as per earlier DRHP**

(INR bn)

	New DRHP	Old DRHP
Usage	Amount	Amount
Land acquisition	65	65
Development and construction costs for existing projects	34.93	31
Pre-payment of loans of company	---	Up to 40.00

Source: Company

This means the earlier IPO planned to raise more than INR 136bn while the current IPO expects to raise more than INR 100bn. The amount could be higher depending on the amount of loans to be pre-paid, if any. The issue size has also changed.

**Figure 7: Issue size**

(m)

	New DRHP	Old DRHP
Fresh issue	175	187.1
Sale by promoters	-	14.91
Green shoe option	-	17
Post issue paid-up capital (%)	10.27	12.77

Source: Company

## Financials

### Major portion of FY07 profit was from sale of properties to Promoter Company

**Figure 8: Given financials**

(INR bn)

	9MFY07	FY06
Sales	21.41	11.54
Other income	13.99	0.72
Total income	35.4	12.26
PBT	24.17	3.6
Net profit	18.98	1.92
Total debt	94.21	41.32
Shareholder's funds	29.74	9.5
Loans and advances	49.16	10.64
Sundry debtors	14.57	6.58
Debt-equity	3.17	4.35

Source: Company

It is interesting to note the details behind these figures. According to disclosures in the recent DRHP, in the period between April 1 and December 31, 2006, DLF realised INR 22.9bn from the sale of certain commercial properties to the promoter group company DLF Assets Ltd (DAL), and booked profit before tax of INR 18.4bn. Thus, about 64% of the total income and 76% of the PBT of 9MFY07 come from this transaction. As the area of the properties was not given, it is not possible to comment on whether the sale was at market price.

DAL has not paid INR 22.37bn of this sale to DLF, as of December 31, 2006. This amount was classified in the balance sheet as INR 7.4bn of debtors and INR 14.9bn as loans and advances.

### Valuations are very steep based on adjusted earnings

If we disregard the above transaction, we would get the correct picture (see Figure 9).

**Figure 9: Adjusted financials**

(INR bn)

	9MFY07	FY06
Sales	13.75	11.54
Other income	0.72	0.72
Total income	14.47	12.26
PBT	5.78	3.6
Net profit	4.54	1.92
Total debt	94.21	41.32
Shareholder's funds	15.30	9.5
Loans and advances	34.21	10.64
Sundry debtors	7.15	6.58
Debt-equity	6.16	4.35

Source: Brics Research

The annualised FY07E EPS would be INR 3.55 (number of shares at 1,704m). DLF wants to raise more than INR 100bn through an issue of 175m shares, from which we estimate an issue price of INR 571 per share and FY07E P/E of 161.

While NAV should ideally be calculated with detailed information about the location of land, Floor to area (FAR) ratios, execution time etc, we have used our estimates of Unitech's NAV per acre in specific cities to look at DLF's land bank value (assuming INR 40m per acre for cities in which the land bank is not very substantial).

**Figure 10: NAV calculations**

City	Acreage (acre)	NAV per acre (INR m)	Value (INR bn)
NCR	5,269	75	395.2
Kolkata	2,331	21	49.7
Rest	2,655	40	106.2
<b>Total</b>	<b>10,255</b>	<b>53.7*</b>	<b>551</b>

Source: Company, Brics Research

\*weighted average

This translates into a NAV per share of INR 323.

### Other initiatives

- **Insurance JV:** DLF holds 74% in an insurance JV with the US-based Prudential Insurance. A joint equity investment of USD 250m over seven years is proposed

- **SEZ development:** DLF is in the process of finalising approvals for several SEZs, which will cover an aggregate area of 26,100 acres. Land acquisition notifications have been issued in respect of a proposed product-specific SEZ in Amritsar with an area of 1,100 acres. The company has received in-principle approval for a multi-product SEZ in Ludhiana with an area of 2,500 acres. It has also received approvals from the Haryana Investment Promotion Board for a 20,000 acres multi-product SEZ in Gurgaon and for a 2,500-acre SEZ in Ambala. However, the recent government notification restricting the size of SEZs may create problems for the Gurgaon SEZ
- **Hotel JV:** DLF has recently entered into a JV with Hilton and Bharat Hotels to set up a chain of hotels and serviced apartments in India. It plans to invest about USD 550m over the next five to seven years with DLF holding 74% share in the JV.
- **Acquisition of Ananta Satelliier India:** In February 2007, DLF has entered into an agreement to acquire 51% of Ananta Satelliier India, a firm of architects, the consideration for which is yet to be determined
- **JV with WSP and share interest in Feedback Ventures:** DLF has recently entered into a JV with WSP to provide itself with engineering and design services and has acquired 19% stake in Feedback Ventures to provide itself with management consulting services.

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