

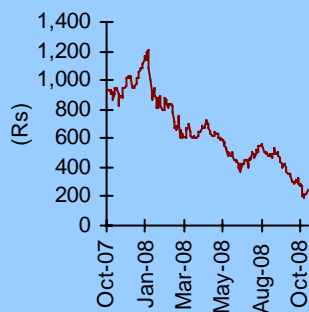
Real Estate

Shareholding pattern

	Mar '08	Jun '08	Sep '08
Promoters	88.2	88.2	88.2
Institutional investors	8.2	7.2	7.3
MFs and UTI	0.4	0.4	0.3
Insurance Cos, Banks, FIs	0.2	0.2	0.2
FII's	7.6	6.6	6.8
Others	3.6	4.7	4.6

Source: www.nseindia.com

Price chart



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INDIA

DLF

HOLD
Maintained

Rs290

Balancing act

Reason for report: NAV revision & Q2FY09 results review

DLF's Q2FY09 results were in line with our estimates – revenues and net profits were at Rs37.4bn & Rs19.4bn (I-Sec PAT: Rs19.5bn) respectively. Revenues rose 15% YoY, though PAT declined 4% YoY. In Q2FY09, booking was higher from mid-income housing segment at 2.74mn sqft versus 2.1mn sqft in Q1FY09. However, booking in office segment at 2.1mn sqft (2.4mn sqft in Q1FY09) & retail was down QoQ. Q2FY09 revenues included sales of Rs14.7bn to DLF Assets (DAL) versus Rs15.6bn in Q1FY09 – DAL's outstanding is at Rs48bn versus Rs33.8bn in Q1FY09. EBITDA margin dipped to 59% YoY from 70% YoY due to higher contribution from low-margin mid income housing segment (35% margins versus 70% from other segments). DAL intends to raise ~US\$500mn by end FY09. We lower FY09E NAV 22% to Rs474/share from Rs610/share (target price lowered to Rs327 from Rs518). We have assumed 240bps and 150bps increase in cost of equity & debt respectively, and 150bps rise in capitalisation rate; reiterate HOLD.

- **Revenue break-up & margin contraction.** Q2FY09 revenues primarily came in from incremental sales in the mid-income housing segment, wherein DLF booked 2.7mn sqft with margins at Rs1,249/sqft versus Rs1,129/sqft in Q1FY09. In retail 0.5mn sqft was booked with margin at Rs4,620/sqft and in commercial office, 2.1mn sqft (lease 0.3mn sqft, sales 1.8mn sqft) was booked with margin at Rs6,262/sqft. Non-DAL sales were at Rs23.7bn – the residential segment contributed 65-70% to non-DAL revenues. Q2FY09 EBITDA margin dipped to 59% versus 70% in Q2FY08 and 61.5% in Q1FY09 due to higher bookings in mid-income housing. We expect margins to remain under pressure on account of higher contribution to revenue mix from the mid-income housing segment, wherein operating margins are at ~35%. PAT margin declined to 52% versus 62% YoY owing to higher interest cost of Rs469mn (interest cost capitalised in Q2FY09 at Rs413mn).
- **NAV revision.** We are lowering FY09E NAV 22% to Rs474/share from Rs610/share to account for the current downtrend in realty given tight liquidity, sluggish transactions and price correction. We are also cutting earnings estimates. We expect DLF to trade at 30% discount to its NAV at Rs332/share.
- **Cautious outlook.** Based on FY09E, FY10E & FY11E EPS estimates of Rs52, Rs57 & Rs62, DLF trades at P/E of 5.6x, 5.1x & 4.7x respectively. We remain cautious on the sector in medium term. However, as DLF is the market leader and enjoys deep discount to valuations with robust business model, we reiterate HOLD.

Market Cap	Rs494bn/US\$10.1bn
Reuters/Bloomberg	DLF.BO/DLFU IN
Shares Outstanding (mn)	1,705
52-week Range (Rs)	1,205/198
Free Float (%)	11.8
FII (%)	6.8
Daily Volume (US\$'000)	70,000
Absolute Return 3m (%)	(47.5)
Absolute Return 12m (%)	(68.3)
Sensex Return 3m (%)	(28.9)
Sensex Return 12m (%)	(45.7)

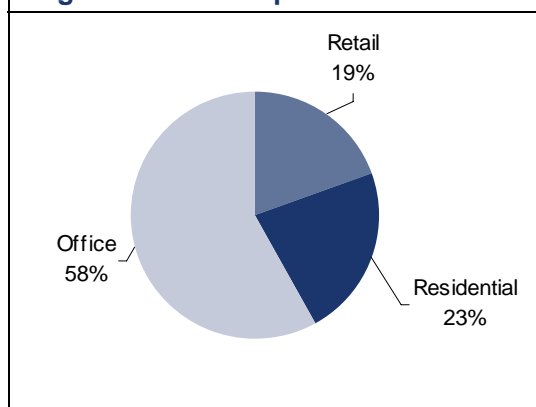
Year to Mar	FY08	FY09E	FY10E	FY11E
Revenue (Rs mn)	144,375	174,397	207,661	237,546
Net Income (Rs mn)	78,133	87,763	96,787	105,486
EPS (Rs)	45.8	51.5	56.8	61.9
% Chg YoY	304.3	12.3	10.3	9.0
P/E (x)	6.3	5.6	5.1	4.7
CEPS (Rs)	46.4	52.6	59.1	65.5
EV/E (x)	6.2	5.5	5.0	4.8
Dividend Yield	1.4	1.7	2.1	2.4
RoCE (%)	34.8	24.3	21.0	18.2
RoE (%)	71.8	38.8	31.5	26.7

Key highlights

DLF's total developable area is at 753mn sqft (96% of the land bank already paid, with Rs57.4bn payable). The company has ~64mn sqft under construction (commercial 36mn sqft, residential 15mn sqft, retail 13mn sqft) across 14 cities. DLF's current leased asset portfolio constitutes 8.5mn sqft of office space and 1mn sqft of retail space.

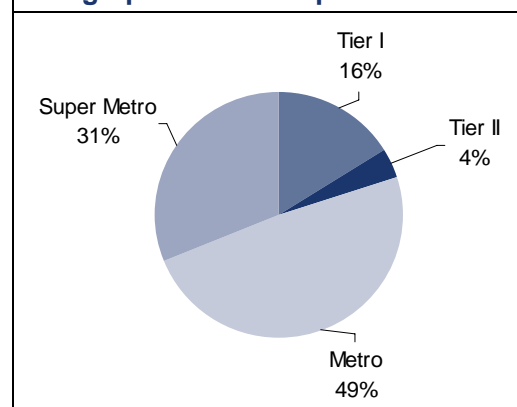
In the residential segment, DLF booked 2.8mn sqft sales in Q2FY09, with weighted average margin at Rs1,249/sqft versus Rs1,129/sqft in Q1FY09. Projects in Gurgaon (0.31mn sqft) and South, including Chennai & Kochi (0.4mn sqft) contributed to revenues of the residential segment. DLF's total development pipeline in the residential segment is at 483mn sqft with 15mn sqft under construction. The company has launched three residential projects in Q2FY09 across India.

Chart 1: Under construction – Segmental break-up



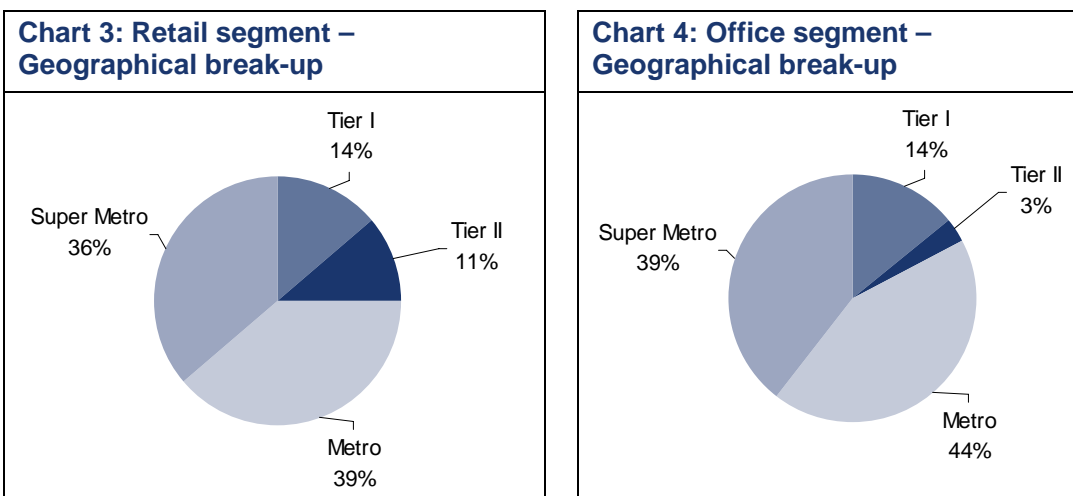
Source: Company data, I-Sec Research

Chart 2: Residential segment – Geographical break-up



In the retail segment, DLF booked 0.5mn sqft sales, with average margins at Rs4,620/sqft, down from Q1FY09 margins of Rs6,229/sqft. Revenues were booked from 0.11mn sqft in DLF Tower plaza, Lucknow. DLF has 12mn sqft of retail mall area under development, with total pipeline of 92mn sqft.

In Q2FY09, ~2.17mn sqft sales were booked from the office segment (0.3mn sqft lease & 1.8mn sqft sales), with average margin at Rs6,262/sqft. DLF has 36mn sqft of office space under development, with a pipeline of 161mn sqft.



Source: Company data, I-Sec Research

DLF has four operational SEZs across India, with 5mn sqft occupied space. In Q2FY09, one IT/ITES SEZ was notified, taking the total number of notified IT/ITES SEZs to 11.

Development work for 17 hotels across India is on schedule, but execution delay due to liquidity constrains will likely set back the projects by 12-18 months. The hotel, Aman Lodhi, at New Delhi is expected to open by end FY09 and Hilton Garden Inn Courtyard at Saket is expected to open in Q4FY09.

DLF has total employee strength of 3,266 (40% professional/technical), down from 3,639 in Q1FY09.

Table 1: City category break-up

Super Metros	NCR, Mumbai
Metros	Chennai, Bangalore & Kolkata
Tier I	Chandigarh, Pune, Goa, Cochin, Nagpur, Hyderabad, Coimbatore & Bhubaneswar
Tier II	Vadodara, Ghandinagar, Ludhiana, Amritsar, Jalandhar, Sonapat, Panipat, Lucknow, Indore, Shimla

Source: Company data, I-Sec Research

Key financials

At present, DLF's outstanding land bank payment is at Rs57.4bn (Rs49.24bn to the Government and the rest to private land owners). In Q2FY09, DLF booked sales of Rs14.7bn to DAL vis-à-vis Rs13.9bn in Q2FY08 and Rs15.5bn in Q1FY08. Receivables from DAL increased Rs14.46bn in Q2FY09 with total outstanding receivables at Rs48bn versus Rs33.82bn as of end-Q1FY09.

In Q2FY09, sundry debtors stood at Rs97.5bn versus ~Rs76bn in Q1FY09 on account of Rs48bn outstanding to DAL as well as creditors' outstanding on the company's power subsidiary. We estimate sundry debtors to remain high going forward, within 40-50% of sales.

DLF's debt increased to Rs146.7bn (including Rs5.4bn of cumulative convertible debentures) in Q2FY09 from Rs142.2bn in Q1FY09; the company has cash of Rs13.3bn as on Q2FY09. We estimate the company's D/E to be 0.63x by end-FY09, however, the management is targetting 0.5x.

Table 2: Q2FY09 results review*(Rs mn, year ending March 31)*

	Q2FY09	Q2FY08	% chg (YoY)	Q1FY09	% chg (QoQ)
Gross sales	37,444	32,500	15.2	38,106	(1.7)
Excise duty					
Net Sales	37,444	32,500	15.2	38,106	(1.7)
Other operating income					
Total Operating income	37,444	32,500	15.2	38,106	(1.7)
Raw Materials	12,862	8,320	54.6	12,060	6.7
Personnel Cost	582	610	(4.5)	1,025	(43.2)
Research & Development					
Other Expenses	1,829	930	96.6	1,577	
Total Expenses	15,274	9,860	54.9	14,662	4.2
EBITDA	22,170	22,640	(2.1)	23,445	(5.4)
Interest (Net)	469	40	1,073.0	541	(13.3)
Depreciation	505	110	359.1	546	(7.5)
Other Income	958	990	(3.3)	357	168.1
Recurring pre-tax income	22,154	23,480	(5.6)	22,715	(2.5)
Taxation	2,813	3,300	(14.8)	3,766	(25.3)
Recurring Net Income	19,341	20,180	(4.2)	18,948	2.1
Extraordinary item					
Less: Minority interest	75	(10)		107	
Add: Associate profits	87	(10)		(201)	
Reported Net income	19,354	20,180	(4.1)	18,640	3.8

Source: Company data

NAV revision

We are lowering FY09E NAV to account for the current downtrend in realty market given tight liquidity, sluggish transaction and price correction.

To account for the above macroeconomic changes, we have increased our cost of debt and equity 170bps & 240bps respectively. Further, we have increased our cap rate 150bps to 12%. Our NAV stands at Rs807bn or Rs474/share. We expect DLF to trade at 30% discount to NAV at Rs332/share.

Table 3: NAV revision

Valuation (Rs mn)	Latest	Earlier
Office	369,816	487,902
Residential	209,992	241,783
Retail	193,142	261,644
Hotels	19,634	32,097
Other assets (JV, acquisitions, auxiliary businesses)	85,250	85,250
Terminal Value	36,344	49,619
Net debt	(61,786)	(71,989)
Discounted land cost payable	(44,912)	(46,643)
Total value	807,479	1,039,662
Value/share (Rs)	474	610

Source: I-Sec Research

Financial Summary

Table 4: Profit and Loss Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Income (Sales)	144,375	174,397	207,661	237,546
of which Exports	0	0	0	0
of which Domestic	144,375	174,397	207,661	237,546
Operating Expenses	47,224	62,546	77,982	91,543
EBITDA	97,151	111,851	129,679	146,003
% margins	67.3	64.1	62.4	61.5
Depreciation & Amortisation	901	1,940	3,991	6,205
Gross Interest	3,100	5,011	8,382	11,577
Other Income	2,464	2,947	3,906	4,452
Recurring PBT	95,614	107,847	121,211	132,672
Add: Extraordinaries	0	0	0	0
Less: Taxes	17,391	19,984	24,315	27,065
- Current tax	17,215	0	0	0
- Deferred tax	176	0	0	0
Less: Minority Interest	91	100	110	121
Net Income (Reported)	78,133	87,763	96,787	105,486
Recurring Net Income	78,133	87,763	96,787	105,486

Source: Company data, I-Sec Research

Table 5: Balance Sheet

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Assets				
Total Current Assets	266,001	349,673	427,065	500,047
of which cash & cash eqv.	21,421	34,712	39,693	45,097
Total Current Liabilities & Provisions	72,157	102,304	134,386	159,666
Net Current Assets	193,843	247,369	292,679	340,380
Investments				
of which	9,102	9,102	9,102	9,102
Strategic/Group	9,102	9,102	9,102	9,102
Other Marketable	0	0	0	0
Net Fixed Assets	100,031	153,074	231,517	336,462
of which				
Capital Work-in-Progress	51,840	80,737	119,024	163,652
Goodwill	20,931	20,931	20,931	20,931
Total Assets	323,907	430,476	554,229	706,875
Liabilities				
Borrowings	122,771	150,771	188,771	248,771
Deferred Tax Liability	359	359	359	359
Minority Interest	3,895	4,674	5,608	6,730
Equity Share Capital	3,410	3,410	3,410	3,410
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	93,479	171,268	256,087	347,611
Net Worth	196,883	274,673	359,492	451,015
Total Liabilities	323,907	430,476	554,230	706,875

*excluding revaluation reserves

Source: Company data, I-Sec Research

Table 8: Quarterly trends

(Rs mn, year ending March 31)

	Dec-07	Mar-08	Jun-08	Sep-08
Net sales	35,980	43,060	38,106	37,444
% growth (YoY)	NA	NA	24	4
EBITDA	25,010	27,830	23,445	22,170
Margin (%)	69.5	64.6	61.5	59.2
Other income	530	660	357	958
Add: Extraordinaries	0	0	0	0
Net profit	21,450	21,770	18,640	19,354

Source: Company data, I-Sec Research

Table 6: Cash Flow Statement

(Rs mn, year ending March 31)

	FY08E	FY09E	FY10E	FY11E
Operating Cash flow	97,406	91,774	103,779	116,357
Working Capital Changes	(110,751)	(45,000)	(47,180)	(51,362)
Capital Commitments	(78,173)	(54,983)	(82,435)	(111,149)
Free Cash Flow	(91,518)	(8,209)	(25,836)	(46,154)
Cash flow from Investing				
Activities	2,464	2,694	3,851	4,399
Issue of Share Capital	351	0	0	0
Buyback of shares	0	0	0	0
Inc (Dec) in Borrowings	23,443	28,000	38,000	60,000
Dividend paid	(7,979)	(9,973)	(11,968)	(13,963)
Extraordinary Items	0	0	0	0
Chg. in Cash & Bank balance	17,266	13,291	4,981	5,404

Source: Company data, I-Sec Research

Table 7: Key Ratios

(Year ending March 31)

	FY08E	FY09E	FY10E	FY11E
Per Share Data (Rs.)				
EPS(Basic Recurring)	45.8	51.5	56.8	61.9
Diluted Recurring EPS	45.8	51.5	56.8	61.9
Recurring Cash EPS	46.4	52.6	59.1	65.5
Dividend per share (DPS)	4.0	5.0	6.0	7.0
Book Value per share (BV)	109.9	155.5	205.3	259.0
Growth Ratios (%)				
Operating Income	256.2	20.8	19.1	14.4
EBITDA	234.4	15.1	15.9	12.6
Recurring Net Income	304.3	12.3	10.3	9.0
Diluted Recurring EPS	262.7	12.3	10.3	9.0
Diluted Recurring CEPS	256.2	13.5	12.3	10.8
Valuation Ratios (x)				
P/E	6.3	5.6	5.1	4.7
P/CEPS	6.3	5.5	4.9	4.4
P/BV	2.6	1.9	1.4	1.1
EV / EBITDA	6.2	5.5	5.0	4.8
EV / Operating Income	4.2	3.6	3.1	3.0
EV / Operating FCF	(6.6)	(75.5)	(25.3)	(15.3)
Operating Ratio				
Raw Material/Sales (%)	26.2	28.9	29.8	29.0
SG&A/Sales (%)	0.0	0.0	0.0	0.0
Other Income / PBT (%)	2.6	2.7	3.2	3.4
Effective Tax Rate (%)	18.2	18.5	20.1	20.4
NWC / Total Assets (%)	53.2	49.4	45.6	41.8
Inventory Turnover (days)	676.3	801.0	921.4	1,068.3
Receivables (days)	115.4	166.2	150.6	138.3
Payables (days)	76.2	128.8	150.4	161.0
D/E Ratio (x)	0.6	0.6	0.5	0.6
Return/Profitability Ratio (%)				
Recurring Net Income Margins	53.2	49.5	45.7	43.6
RoCE	34.8	24.3	21.0	18.2
RoNW	71.8	38.8	31.5	26.7
Dividend Payout Ratio	8.7	9.7	10.6	11.3
Dividend Yield	1.4	1.7	2.1	2.4
EBITDA Margins	67.3	64.1	62.4	61.5

Source: Company data, I-Sec Research

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