

RESULTS REVIEW

Share Data

Market Cap	Rs. 295.2 bn
Price	Rs. 173.35
BSE Sensex	9,001.75
Reuters	DLF.BO
Bloomberg	DLFU IN
Avg. Volume (52 Week)	3.10 mn
52-Week High/Low	Rs. 739/124.15
Shares Outstanding	1,703 mn

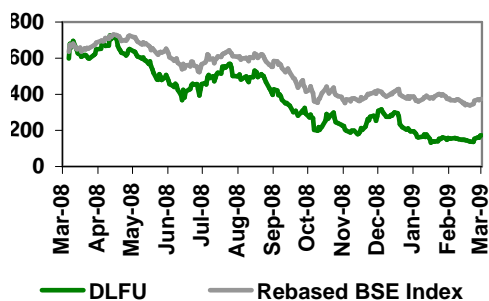
Valuation Ratios

Year to 31 March	2009E	2010E
EPS (Rs.)	27.5	14.0
+/- (%)	(42.3%)	(49.1%)
PER (x)	6.3x	12.4x
EV/ Sales (x)	4.2x	6.4x
EV/ EBITDA (x)	7.5x	12.3x

Shareholding Pattern (%)

Promoters	88
FII's	7
Institutions	0
Public & Others	4

Relative Performance



DLF Limited

Sell

Battling the slowdown

DLF's net sales for Q3'09 plunged 62.0% yoy due to a slump in property demand and a correction in property prices. This coupled with increased interest cost burden impacted the net profit, which fell 68.7% yoy.

Sales volume unlikely to pick up substantially in the near-term: We believe that the current slowdown in the real estate sector is yet to bottom out and the pricing pressure should further intensify in Q4'09. We expect the property demand to remain weak at least over the next 2-3 quarters as expectations of a further fall in prices, worsening economic environment, and low loan-to-value ratios, are keeping the potential buyers away from entering the property market. Despite a 15%–20% decline in realty prices across segments in the last few months (discounts offered are higher in certain new launches) and a cut in interest rates, the sales volume has failed to pick-up, indicating a wait-and-watch approach being followed by the potential buyers.

Slowdown to have an extended effect on profitability: We believe that the expected decline in property prices/rental rates will drag DLF's margin considerably downwards even after considering a reduction in construction costs. Moreover, the shift in the Company's strategy towards low-margined middle income segment should negatively affect margins over the longer term. DLF is also delaying certain projects and changing current debt profile of short-term loans to long-term, which would increase the carrying cost of capital and thus impact net margins negatively.

Valuation: Our revised NAV-based fair value estimate of Rs. 146 reflects a downside of 16% from the current market price. We have reduced our fair value estimate to reflect a higher-than-expected decline in property demand and prices in this quarter. Thus, we downgrade our rating from Hold to Sell.

Key Figures (Consolidated)

Quarterly Data	Q3'08	Q2'09	Q3'09	YoY%	QoQ%	9M'08	9M'09	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	35,984	37,444	13,667	(62.0%)	(63.5%)	99,221	89,217	(10.1%)
EBITDA	25,014	22,170	7,720	(69.1%)	(65.2%)	72,169	58,449	(19.0%)
Net Profit	21,450	19,354	6,708	(68.7%)	(65.3%)	56,790	44,701	(21.3%)
Margins(%)								
EBITDA	69.5%	59.2%	56.5%			72.7%	65.5%	
NPM	59.6%	51.7%	49.1%			57.2%	50.1%	
Per Share Data (Rs.)								
EPS	12.6	11.3	3.9	(68.5%)	(65.3%)	34.4	26.2	(23.8%)

Result Highlights and Analysis

- During Q3'09, DLF's net sales fell 62.0% yoy due to a slump in property demand across all the segments, which impacted both the units sold as well as realizations. While total units sold fell 64.3% yoy across segments, average realisation rate fell by 15.6% yoy. In the housing segment, the sales booked fell 50% yoy and the realisation rate declined 41% yoy. We expect this segment's performance to remain weak at least till the first half of FY10 as low loan to value ratios, expectation of a further fall in property prices, and unstable economic environment are likely to keep the potential buyers away from entering into any long-term financial commitments. In the retail and office segment, the sales volume almost disappeared in Q3'09. We believe that the demand in these segments will closely track the economic activity in the region. Since, the economic environment is expected to remain subdued for the current year, the current demand slowdown can most likely stretch to the remainder of the year.
- The gross profit margin unexpectedly improved by 570 bps yoy to 79.3% due to a higher fall in the construction cost than property prices/rentals. Construction cost as a percentage of sales decreased from 26.4% in Q3'08 to 20.7% in Q3'09. However, going forward, we believe that fall in property prices will more-than offset the decline in the construction cost, thereby dragging the margin downwards. Accordingly, we expect gross profit margin to fall 65.7% and 60.3% in FY09 and FY10, respectively.
- The EBITDA margin declined 1,300 bps yoy to 56.5% due to a 98.8% yoy and a 124.3% yoy increase in the staff cost and other expenditure, respectively. We expect EBITDA margin to fall further to 55.7% and 52.0% in FY09 and FY10, respectively.
- Net profit for the period de-grew 68.7% yoy impacted by poor operating performance and a 19.1% yoy increase in finance charges.

- For Q3'09, DLF's debt-to-equity ratio increased to 0.63 as against 0.52 at the end of Q3'08 and the interest coverage ratio fell sharply to 7.4x vis-à-vis 31.6x in Q3'08.

Segment-wise Details

Area	Q3'08	Q2'09	Q3'09	QoQ%	YoY%	Price/Cost	Q3'08	Q2'09	Q3'09	QoQ%	YoY%
Homes											
Sales booked (msf)	1.41	2.79	0.70	(75%)	(50%)	<i>Wt. avg. sale price (Rs.)</i>					
New launched (msf)	0.25	0.55	0.00	(100%)	(100%)	Apartment	4,628	2,968	2,736	(8%)	(41%)
Handed over (msf)	1.61	1.14	0.96	(16%)	(40%)	Plots	NA	NA	866	NA	NA
						Town House	NA	1,870	2,708	45%	NA
						<i>Wt. avg. project cost (Rs.)</i>					
						Apartment	1,666	1,821	1,813	(0%)	9%
						Plots	NA	NA	372	NA	NA
						Town House	NA	1,170	1,636	40%	NA
Office											
Sales booked (msf)	2.35	1.84	0.80	(57%)	(66%)	<i>For Sale</i>					
Lease booked (msf)	0.93	0.33	0.21	(36%)	(77%)	Wt. avg. sale price (Rs.)	8,769	7,990	7,599	(5%)	(13%)
New launched (msf)	6.76	0.00	0.02	NA	(100%)	Wt. avg. project cost (Rs.)	1,689	1,738	1,635	(6%)	(3%)
Handed over (msf)	1.35	0.75	0.80	7%	(41%)	<i>For Lease</i>					
						Wt. avg. sale price (Rs.)	43	76	51	(33%)	19%
						Wt. avg. project cost (Rs.)	1,702	2,058	2,343	14%	38%
Retail											
Sales booked (msf)	0.08	0.33	(0.01)	(103%)	NM	<i>For Sale</i>					
Lease booked (msf)	0.07	0.19	0.03	(84%)	(57%)	Wt. avg. sale price (Rs.)	14,828	6,944	9,876	42%	(33%)
New launched (msf)	(1.02)	0.00	0.00	NA	(100%)	Wt. avg. project cost (Rs.)	4,505	2,325	3,096	33%	(31%)
Handed over (msf)	0.00	0.17	0.00	(100%)	NA	<i>For Lease</i>					
						Wt. avg. sale price (Rs.)	321	105	213	103%	(34%)
						Wt. avg. project cost (Rs.)	9,091	7,253	8,310	15%	(9%)

Source: Company data

Key Events

- DLF reduced selling price by around 19% in the 53-acre residential project in Chennai.
- DLF is repositioning the project, Westend Heights (Bangalore), converting it from a premium residential development with large apartments to smaller, less-expensive homes. The price for the project has also been cut from Rs. 2,775 per sq. ft to Rs. 1,850 per sq. ft.
- The finance ministry ordered an audit report of DLF's accounts as part of a probe of the accounting practices of housing companies.

Valuation: Our NAV-based target price of Rs. 146 reflects a downside of 16% from the current market price. We have reduced our fair value estimate to reflect a higher-than-expected decline in property demand and prices in Q3'09. For the calculation of the NAV, we have taken into consideration a discount of 20% on the land value over the average prevailing prices in the quarter ending December 08. Moreover, the accounts receivables (apart from the dues from DAL, which is valued at a higher discount) are valued at a 20% discount to the book value as at the end of Q3'09. We expect the RoE to decline to 9% by FY10 from the historical average of over 40%. Hence, we downgrade our rating to Sell.

Key Figures

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY08-10E)
Net Sales	18,363	26,374	140,460	106,090	69,311	(29.8%)
EBITDA	7,525	14,961	93,389	59,090	36,022	(37.9%)
Adj. Net Profit	4,045	9,412	74,974	46,810	23,832	(43.6%)
Margins(%)						
EBITDA	41.0%	56.7%	66.5%	55.7%	52.0%	
NPM	22.0%	35.7%	53.4%	44.1%	34.4%	
Per Share Data (Rs.)						
Adjusted EPS	26.0	6.2	47.7	27.5	14.0	(45.8%)
PER (x)*	20.2x	84.6x	3.6x	6.3x	12.4x	

* For FY06 and FY07, PER is based on the issue price

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