4QFY10 Results Update

SECTOR: REAL ESTATE

DLF

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,836	DLFU IN
	REUTERS CODE
S&P CNX: 5,060	DLF.BO

17 May 2010

Buy

Previous Recommendation: Buy Rs287

Equity Shares (m)	1,714.4
52-Week Range	491/259
1,6,12 Rel. Perf. (%)	-9/-22/-27
M.Cap. (Rs b)	492.0
M.Cap. (US$ b)	10.8

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	100,448	44,696	26.0	-43.4	11.1	2.3	18.5	15.6	6.4	11.4
3/10A	74,209	17,300	10.0	-61.3	28.6	1.7	5.6	7.6	9.4	19.9
3/11E	93,465	20,477	11.9	18.4	24.1	1.8	6.9	8.4	7.1	14.7
3/12E	119,851	27,542	16.0	34.5	17.9	1.7	9.0	10.5	5.4	12.0

DLF 4QFY10 results in line; strong FY11 guidance; maintain Buy

- **Results in line:** DLF posted 4QFY10 results largely in line with our estimates. EBITDA was Rs10b against our estimate of Rs10.5b and EBITDA margins were 50.1% against our estimate of 52%. Reported PAT was Rs4.26b against our estimate of Rs4.9b. Reported PAT includes a prior period adjustment of Rs872m. Tax provisioning for 4QFY10 was also higher at 31.8% of PBT v/s our estimate of 27% of PBT. Revenue increased by 77.7% YoY to Rs19.9b v/s our estimate of Rs20.1b.
- **Strong guidance for FY11:** The management has issued strong operational guidance for sales and leases across verticals in FY11. It hopes to achieve residential sales of 15msf-18msf and lease 3msf-4msf of commercial office space in FY11. The management also guided for asset sales of ~Rs27b over 12-18 months mainly due to expectation of refunds from the government.
- **Lowering estimates:** We are cutting our NAV by 9% from Rs428/share to Rs388/share, mainly to factor in 1) debt of ~Rs45b, which is higher than our estimates, 2) delay in residential and commercial launches, and 3) lower stake of DLF's in key projects such as NTC Mills and Mall of India after the merger of a promoter-held entity. We are also cutting our FY11 PAT estimate by 22.2% to Rs20.4b and FY12 PAT by 10.8% to Rs27.5b to account for 1) significantly higher interest costs, and 2) delay in new launches.
- **Valuation and view:** DLF trades at 31% discount to our revised FY12 NAV of Rs388, FY12 P/E of 17.9x and FY12 P/B of 1.7x. We expect DLF to benefit significantly from the expected revival in the commercial and retail verticals. A successful REIT listing at an attractive cap rate would be a key near term catalyst for the stock. Maintain **Buy**.

QUARTERLY PERFORMANCE (Rs Million)

Y/E MARCH	FY09				FY10				FY09	FY10
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Sales	**38,106**	**37,444**	**13,667**	**11,223**	**16,499**	**17,509**	**20,258**	**19,944**	**100,448**	**74,210**
Change (%)	*24.0*	*15.2*	*(62.0)*	*(73.9)*	*-56.7*	*-53.2*	*48.2*	*77.7*	*-30.4*	*-26.1*
Total Expenditure	14,661	15,274	5,947	9,677	9,058	8,371	11,825	9,944	44,454	39,198
Cost of Land/Construction	12,060	12,862	2,830	5,777	5,583	5,155	7,959	6,071	32,295	24,768
Staff Cost	1,024	582	1,210	1,375	1,132	1,079	1,289	1,191	4,537	4,691
Others	1,577	1,829	1,907	2,526	2,343	2,137	2,577	2,682	7,622	9,738
EBITDA	**23,445**	**22,170**	**7,720**	**1,546**	**7,441**	**9,138**	**8,433**	**10,000**	**55,994**	**35,012**
% Change	*6.4*	*-2.1*	*-69.1*	*-94.4*	*-68.3*	*-58.8*	*9.2*	*546.9*	*-42.3*	*-37.5*
As % of Sales	*61.5*	*59.2*	*56.5*	*13.8*	*45.1*	*52.2*	*41.6*	*50.1*	*55.7*	*47.2*
Depreciation	546	505	788	516	734	766	800	947	2,390	3,246
Interest	541	469	938	1,625	2,874	2,486	2,568	3,147	5,548	11,075
Other Income	357	958	1,361	2,291	961	594	1,260	1,518	3,866	4,334
PBT	**22,715**	**22,154**	**7,356**	**1,695**	**4,794**	**6,481**	**6,325**	**7,424**	**51,922**	**25,024**
Tax	3,766	2,813	537	-2	993	1,918	1,684	2,362	6,754	6,957
Effective Tax Rate (%)	*16.6*	*12.7*	*7.3*	*-0.1*	*20.7*	*17.5*	*26.6*	*31.8*	*13.0*	*27.8*
Reported PAT	**18,949**	**19,341**	**6,818**	**1,697**	**3,801**	**4,563**	**4,641**	**5,062**	**45,168**	**18,067**
Change (%)	*-14.1*	*-4.2*	*(68.1)*	*(92.3)*	*-79.9*	*-76.4*	*(31.9)*	*-*	*-42.2*	*-60.0*
P/L of Associat./ Minority Int.	*308*	12	-110	-106	*-159*	166	-38	798	-486	767
Adj. PAT	**18,640**	**19,354**	**6,708**	**1,591**	**3,960**	**4,397**	**4,679**	**4,264**	**44,682**	**17,300**
Change (%)	*(14.4)*	*(4.1)*	*(68.7)*	*(92.7)*	*(78.8)*	*(77.3)*	*(30.2)*	*168.1*	*(42.8)*	*-61.3*

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Results in line

DLF posted 4QFY10 results that were in line with our estimates. EBITDA was Rs10b against our estimate of Rs10.5b and EBITDA margins were 50.1% against our estimate of 52%. Reported PAT was Rs4.26b against our estimate of Rs4.9b. Reported PAT includes a prior period adjustment of Rs872m. Tax provisioning for 4QFY10 was also higher at 31.8% of PBT against our estimate of 27% of PBT. Revenue increased by 77.7% YoY to Rs19.9b against our estimate of Rs20.1b.

Key highlights

A) Operational

- For FY10, DLF's residential sales were 12.17msf and office leases were 0.76msf. This is below our residential sales assumption of ~16msf for FY10 and commercial lease assumption of ~1msf.
- During 4QFY10, DLF booked sales of 3.64msf in the residential vertical and net leases of 0.69msf in offices. Key projects sold in 4QFY10 included: Capital Greens Delhi Phase III - 0.2msf; Panchkula - 2msf; New Gurgaon Bangalore, Goa - 0.4msf and Gurgaon Phase V - 1msf.
- Total sales value in FY10 was Rs71.5b and the average realization was Rs5,699/sf.
- Total delivery in FY10 fell 71% YoY to 2.1msf (1.6msf residential and 0.6msf commercial) against 7.3msf (5msf commercial and 2.3msf residential) in FY09.

RESIDENTIAL SALES IN FY10

REGION	CITY	AREA LAUNCHED (MSF)	AREA SOLD (MSF)	SALES VALUE (RS B)	AVG. REALIZATION (RS/SF)
Super Metro	Delhi	4.6	4.2	33.0	7,838
Gurgaon	Delhi & New Gurgaon	3.5	3.1	25.5	8,173
Rest of India	Panhkula, Bangalore, Goa	5.2	3.9	9.5	2,439
Existing Stock	New Gurgaon, Kochi and Indore	0.0	1.3	3.5	2,652
Total		**13.2**	**12.6**	**71.5**	**5,699**

Source: Company/MOSL

B) Financial

- DLF's net worth increased by Rs45.2b due to the inclusion of CCPs of Rs29.3b payable to SC Asia and Rs15.9b payable to promoters after the merger of DAL/CARAF with DLF Cyber City. The management said that as CCPs of Rs29.3b to SC Asia had been paid in April 2010, it would no longer appear in its June 2010 balance sheet and cash would accordingly be reduced.
- During 4QFY10, DLF's gross debt increased by ~Rs45b QoQ to Rs216.7b. Consequently, gross debt-equity (after goodwill deduction) increased to ~0.73x in 4QFY10. The key reason cited for the increase in gross debt has been an increase in debt by Rs22b due to the merger of DAL/CARAF with DLF Cyber City and accumulating funds to pay off Rs31b to SC Asia in 1QFY10. Net debt equity (after goodwill deduction, but including CCPs) increased from 0.52x to 0.56x in FY10. The increase in debt-equity ratios (both at gross and net level) is muted by the inclusion of CCPs in the net worth. We expect net debt-equity to increase sharply from 0.56x in 4QFY10 to ~0.8x in 1QFY11 as cash was paid out (resulting in higher net debt) to retire the CCPs, resulting in lower net worth.

- Investment increased from Rs29.7b in 3QFY10 to Rs55.2b in 4QFY10. During 3QFY10, the investment increased from Rs15.2b to Rs29.7b. The management earlier stated that the increase in investment was due to cash lying in short term savings instruments, as the company had taken low cost debt, which would be used to pay off debt in 4QFY10.
- Other assets on the balance sheet declined by Rs37.8b, mainly due to a reduction of DAL receivables by Rs35.5b. CWIP increased from Rs57.8b in 3QFY10 to Rs111.8b in 4QFY10.
- DLF sold assets worth Rs18b in FY10 against a guidance of Rs55b and the company plans to sell assets worth about Rs27b over 12-18 months.
- Goodwill as on March 2010 was Rs12.6b against Rs22b in FY09.

KEY BALANCE SHEET SNAPSHOT QOQ (RS B)

PARTICULARS	FY09				FY10				QOQ	YOY
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	(%)	(%)
Gross Fixed Assets	53	56	69	74	86	87	95	179	89	143
Adj. Networth (Minus Goodwill)	195	219	226	226	223	230	235	295	26	31
CCPS	-	-	-	-	-	-	-	45	-	-
Gross Debt	**142**	**147**	**155**	**164**	**148**	**147**	**172**	**217**	**26**	**33**
Gross Debt/Equity (x)	**0.73**	**0.67**	**0.69**	**0.72**	**0.66**	**0.64**	**0.73**	**0.73**	**0.5**	**1.5**
Cash	10	13	7	12	7	6	8	9	12	-24
Investment	14	11	15	14	21	15	30	55	86	299
Net Debt	**132**	**133**	**148**	**152**	**133**	**139**	**148**	**166**		**5.9**
Net Debt/Equity Ratio (x)	0.68	0.61	0.66	0.67	0.60	0.61	0.63	0.56		-
Sundry Debtors	76	98	102	97	18	16	20	17	-16	-83
Loans and Advances	98	102	94	97	86	83	83	86	3	-12
Other Assets	0	1	1	1	65	73	83	45	0	
Capital Work in Progress	61	75	73	70	59	64	58	112	93	61
Net Current Assets	218	233	233	244	218	224	239	188	-21	-23

Source: Company/MOSL

C) Guidance for FY11

- The management issued strong operational guidance for sales and leases across verticals in FY11. It hopes to achieve residential sales of 15m-18msf and lease 3m-4msf of commercial office space in FY11.
- The management also guided asset sales of ~Rs27b over 12-18 months mainly due to expectation of refunds from the government.

Achieved sales/lease of ~13msf in FY10

- During 4QFY10 DLF booked sales of 3.64msf in the residential vertical and net leases of 0.69msf of office space. Key projects sold during 4QFY10 include: Capital Greens Delhi Phase III - 0.2msf; Panchkula - 2msf; New Gurgaon Bangalore, Goa - 0.4msf and Gurgaon Phase V - 1msf.
- For FY10 residential sales were 12.17msf (up 92% YoY) and office space leases were 0.76msf (down 87% YoY). FY10 sales/leases were down 6% YoY at 12.9msf against 13.8msf in FY09. FY10 performance was below our residential sales assumption of ~16msf for FY10 and commercial lease assumption of ~1msf.
- Total delivery in FY10 fell 71% YoY to 2.1msf (1.6msf residential and 0.6msf commercial) against 7.3msf (5msf commercial and 2.3msf residential) in FY09.

QUARTER-WISE SALES/BOOKINGS (MSF)

	FY09				FY09	FY10				FY10	QoQ	YoY
	1Q	2Q	3Q	4Q		1Q	2Q	3Q	4Q		(%)	(%)
Residential												
Sales	2.1	2.8	0.7	0.7	**6.3**	2.7	2.7	3.1	3.6	**12.2**	16.7	92.0
Office												
Lease	0.7	0.3	0.2	-0.1	**1.1**	0.1	-0.4	0.4	0.7	**0.8**	64.3	-32.7
Sales	1.8	1.8	0.8	0.4	**4.8**	-	-	-		**-**	-	-
Total - Office	**2.4**	**2.2**	**1.0**	**0.3**	**5.9**	**0.1**	**-0.4**	**0.4**	**0.7**	**0.8**	**-**	**-87.2**
Retail												
Lease	-	0.3	-	-	**0.4**	-	-	-	-	**-**	-	-
Sales	0.9	0.2	-	0.1	**1.2**	-	-	-	-	**-**	-	-
Total - Retail	**0.9**	**0.5**	**0.0**	**0.1**	**1.5**	**-**	**-**	**-**	**-**		**-**	**-**
Total	**5.5**	**5.5**	**1.7**	**1.1**	**13.8**	**2.8**	**2.3**	**3.5**	**4.3**	**12.9**	**22.3**	**-6.3**

Source: Company/MOSL

DETAILS OF DEVELOPMENT BUSINESSES (HOMES AND COMMERCIAL COMPLEXES)

SALES BOOKED (MSF)	FY09				FY09	FY10				FY10	QOQ	YOY
	1Q	2Q	3Q	4Q		1Q	2Q	3Q	4Q		(%)	(%)
Opening Balance	20.8	23.8	26.8	27.5	20.8	28.3	30.1	32.8	35.2	28.3	36	7
Booked During the Quarter	3.0	3.1	0.7	0.8	7.6	2.7	2.7	3.1	3.6	12.2	60	17
Handed Over	0.0	0.2	0.0	0.0	0.2	0.8	0.0	0.7	0.0	1.6	-	-
Closing Balance	**23.8**	**26.8**	**27.5**	**28.3**	**28.3**	**30.1**	**32.8**	**35.2**	**35.2**	**35.2**	**25**	**0**
Under Construction (msf)												
Opening Balance	14.8	19.3	18.3	17.3	14.8	18.3	25.0	31.6	33.4	18.3	24	6
New Launched	2.4	0.3	0.0	1.0	3.7	7.5	6.6	2.6	5.4	22.1	500	111
Handed Over	0.0	1.3	1.0	0.0	2.3	0.8	0.0	0.7	0.0	1.6	-	-100
Closing Balance	**17.2**	**18.3**	**17.3**	**18.3**	**18.3**	**25.0**	**31.6**	**33.4**	**33.4**	**33.4**	82	0
Wt Avg Rate (Rs/sf)												
Homes	2,808	2,985	2,719	2,211	-	5,369	7,328	5,832	4,180	-	-	-28
Commercial Complexes	8,773	6,944	6,944	6,946	-	13,132	12,917	7,056	0	-	-	-
Wt Project Cost (Rs/sf)												
Homes	1,679	1,736	1,661	1,736	-	2,452	2,707	1,839	1,934	-	-	5
Commercial Complexes	2,544	2,325	2,325	5,806	-	5,372	3,355	2,270	0	-	-	-
Wt Avg. Margin (Rs/sf)												
Homes	1,129	1,249	1,059	475	-	2,917	4,621	3,994	2,246	-	-	-44
Commercial Complexes	6,229	4,620	4,620	1,140	-	7,760	9,563	4,795	0	-	-	-

Source: Company/MOSL

DETAILS OF ANNUITY BUSINESSES (OFFICES + RETAIL)

SALES BOOKED (MSF)	FY09				FY09	FY10				FY10	QOQ	YOY
	1Q	2Q	3Q	4Q		1Q	2Q	3Q	4Q		(%)	(%)
Sales/Lease booked												
Opening Balance	16.2	15.6	17.2	17.4	16.2	17.4	17.0	16.5	16.9	17.4	-4	3
Lease Booked During the Quarter	0.7	0.5	0.2	-0.1	1.4	0.1	-0.4	0.4	-7.3	-7.2	75	-
Sales Booked During the Quarter	1.8	1.8	0.8	0.4	4.8	0.0	0.0	0.0	9.1	9.1	-	-
Less: Handed Over	3.1	0.8	0.8	0.4	5.0	0.6	0.0	0.0	0.0	0.6	-	-
Closing Balance	**15.6**	**17.2**	**17.4**	**17.4**	**17.4**	**17.0**	**16.5**	**16.9**	**16.9**	**16.9**	**-3**	**-**
Under Construction (msf)												
Opening Balance	46.8	45.7	44.9	44.1	46.8	17.7	17.1	17.1	17.1	17.7	-62	-
New Launched	1.9	0.0	0.0	-26.1	-24.2	0.0	0.0	0.0	0.0	0.0	-	-
Handed Over	3.1	0.8	0.8	0.4	5.0	0.6	0.0	0.0	0.0	0.6		-
Closing Balance	**45.7**	**44.9**	**44.1**	**17.7**	**17.7**	**17.1**	**17.1**	**17.1**	**17.1**	**68.5**	**-61**	-
For Sale Business												
Wt. Avg. Rate (Rs/sf)	8,884	7,990	7,599	7,519	-	-	-	-	-	-	-	-
Wt. Avg. Project Cost (Rs/sf)	1,902	1,738	1,635	1,662	-	-	-	-	-	-	-	-
Wt. Avg. Margin (Rs/sf)	6,982	6,252	5,964	6,982	-	-	-	-	-	-	-	-
Wt. Avg. Leasing Rate (Rs/sf/mth.)												
Offices	69	76	51	71	-	30	45	49	41	-	-4	-16
Retail	0	105	213	183	-	152	145	141	-	-	-34	-
Wt. Avg. Project Cost (Rs/sf)												
Offices	2,189	2,058	2,343	2,025	-	1,891	2,160	1,626	1,858	-	-31	14
Retail	0	7,523	8,310	7,295	-	7,762	7,821	7,680	-	-	-8	-

Source: Company/MOSL

MANAGEMENT GUIDANCE FOR RESIDENTIAL SALES (MSF) ACROSS SEGMENTS

PARTICULARS	MSF
Luxury	1-1.5
City Centric/ High End	2-3
Mid Inc./ Value Housing	12-14
Total	**15-18**

Source: Company/MOSL

Strong FY11 guidance for residential, commercial verticals

- The management issued strong guidance for sales and leases across verticals for FY11. It hopes to achieve residential sales of 15m-18msf and lease 3m-4msf of commercial office space in FY11.
- In the past, the management has not been very successful in meeting its stated targets.

DAL-Caraf merger with DLF Cyber City earnings dilutive for DLF

In December 2009, DLF's board approved integration of DLF Cyber City Developers Limited, a 100% subsidiary of DLF with Caraf Builders & Constructions Private Limited (Caraf) in the ratio of 60:40. Consequently, DLF would have a 60% stake in the integrated entity, while the residual 40% stake would be held by the promoters of DLF. While the proposed deal creates a strong entity to take to REIT market, its not value accretive for DLF shareholders, because: i) it does not resolve DLF's Rs28b receivables issue from DAL, ii) there will be no improvement in DLF's cash flow outlook in the near term, iii) it has created liabilities of ~Rs53b (debt Rs22b and Rs31b to be paid to SC Asia); iv) there is little scope of any major cap rate benefit to DLF shareholders in the near-term; v) implied valuation of development portfolio in DLF Cyber City (derived data) seems low as the development portfolio included key assets such as (1) NTC Mill, Mumbai (~4msf), (2) Mall of India, Gurgaon (~3msf) and (3) ~6msf of commercial offices in Gurgaon.

In April 2010, DLF bought 90% of the stake that SC Asia Pte Limited held in DLF Assets Limited (DAL) through its 60% subsidiary DLF Cyber City for ~Rs31b. The transaction implies a valuation of Rs34.3b for SC Asia's 46% stake in DAL. The effective shareholding of DAL after this exercise is: DLF and DLF promoters 91.8%, SC Asia 4.6% and DE Shaw 3.5%. SC Asia held 46% stake in DAL, in lieu of its investment of ~US$650m (Rs27b) in DAL (investment of US$450m directly and purchase of Lehman's stake of ~US$200m).

This development created capital obligation of ~Rs31b for DLF and raised fresh questions on the possible merits of the DAL/Caraf merger with DLF. **The management had communicated during the time of merger in December 2009 that SC Asia would be provided exit through funds raised from the impending REIT issue. The transaction is effectively earnings dilutive for DLF. The total rental income of DAL/Caraf is Rs5.5b (DLF's share 60%) and DLF's increase in interest cost will be ~Rs7b (assuming interest costs of 10.5%), primarily due to a) liability creation of ~Rs53b (DLF's debt increased by Rs22b after the merger and capital requirement of Rs31b for purchasing SC Asia stake), and b) preference dividend of 9% on CCPs of ~Rs15b held by promoters in DAL.**

Background of DAL and its relationship with DLF

A) Creation of DAL and the resulting implications on DLF

- DAL was set up to act as a monetization vehicle for DLF by the promoters of DLF with no stake of DLF in DAL. In 4QFY07, DLF signed a contract with DAL for the sale of ~19msf of commercial IT SEZ projects in Gurgaon, Chennai and Hyderabad, over 3-4 years at a cap rate of 9%.

- Between FY07 and FY09, DLF sold ~13.5msf to DAL for ~Rs110b, of which ~Rs54b was outstanding as on 3QFY09.
- While DAL received initial investment of ~Rs1b from DLF promoters, it raised ~US$1.1b from various private equity investors in the form of Compulsorily Convertible Preference Shares (CCPs) to finance its purchases from DLF. Initially the plan was to list DAL on the Singapore REIT market to provide an exit to PE investors and to make it a sustainable monetization vehicle for DLF's capital intensive commercial vertical.
- Between FY07 and FY08, DAL received ~US$400m from DE Shaw, US$200m from Lehman Brothers and US$450m from SC Asia. In FY08, SC Asia also bought Lehman's stake in DAL.
- The DAL model came under severe stress after the global financial turmoil in FY08 due to DAL's inability to raise fresh equity, its high outstandings to DLF and a slowdown in the commercial real estate segment.
- Concerns regarding the real estate sector coupled with DAL outstandings of ~Rs54b led to a 92% fall in DLF's stock price from its peak in February 2008 to a low of Rs123/share in February 2009.

B) Integration of DAL with DLF

January 2009

- In 4QFY09, DLF was forced to truncate its contract of ~19msf of sales to DAL at ~13.5msf itself, as receivables from DAL were ~Rs54b. DAL, which was 100% held by DLF promoters, also underwent a cash flow strain as key PE investor, DE Shaw, wanted to use its put option to exit DAL.

March 2009

- To meet the repayment obligations to PE investors, the promoters sold 9.9% of their stake in DLF at Rs229/share to raise ~Rs38b in March 2009. The objective of the sale was to provide an exit to DE Shaw (Rs20b-22b) from DAL and to partly repay DAL outstandings to DLF.

June 2009

- DLF's outstanding from DAL fell from Rs54b to Rs28b. The source of funds for DAL was debt, promoter infusion and rental income.

December 2009

- In December 2009, DLF promoters bought back 97% of DE Shaw stake for US$490m v/s DE Shaw's original investment of US$400m in FY07.
- DLF's board approved the integration of DLF Cyber City Developers Limited, a 100% subsidiary of DLF, with Caraf Builders & Constructions Private Limited (Caraf), the holding company of DAL, in the ratio of 60:40. Consequently, DLF held 60% stake in the integrated entity, and the residual 40% stake was held by DLF's promoters.
- While DLF's books reflected sales of ~13.5msf to DAL and receivables of Rs28b from DAL, DAL's books reflected the purchase of 6.4msf from DLF and advances to DLF.

- By merging DAL with DLF's subsidiary, DLF no longer had a third party to collect receivables from (DLF's management insisted that receivables of Rs28b were to be paid by new entity DLF Cyber City on delivery of assets and as such receivables were not cancelled).
- Due to the integration, DLF's debt increased by ~Rs22b and it took over the onus of providing an exit to SC Asia. As per DLF's FY09 Annual Report, DLF held 50m shares in Symphony International Holdings, which was valued at Rs2.6b at book value.

April 2010

- DLF bought 90% of SC Asia's 46% stake in DAL through its subsidiary Caraf Builders and Construction, valuing DAL at an equity valuation of Rs34.3b.
- After the merger of DAL/Caraf with DLF, DLF's debt increased by ~Rs53b. It no longer has a third party to receive the outstanding of ~Rs28b as it had in 1QFY10.

Valuation and view

- We are cutting our NAV estimate by 9% from Rs428/share to Rs388/share to model: (1) higher debt of ~Rs45b against our earlier estimates, (2) delay in residential and commercial launches, and (3) lower stake of DLF in key projects such as NTC Mills and Mall of India after the merger with the promoter-held entity.
- We are also cutting our FY11 PAT estimate by 22.2% to Rs20.4b and FY12 PAT by 10.8% to Rs27.5b to model: (1) significantly higher interest costs, and (2) a delay in new launches.
- DLF trades at a 31% discount to our revised FY12E NAV of Rs388, FY12E P/E of 17.9x and FY12E P/B of 1.7x. We expect DLF to benefit significantly from the expected revival in the commercial and retail verticals. A successful REIT listing at an attractive cap rate would be a key near-term catalyst for the stock. Maintain **Buy**.

DLF: an investment profile

Company description

DLF is one of the largest and most respected real estate companies in India. The company has developed many well known urban colonies in Delhi, including South Extension, Greater Kailash, Kailash Colony and Hauz Khas. Since inception, DLF has developed ~224msf, including 22 urban colonies and an integrated 3,000-acre township in Gurgaon, called DLF City.

Key investment arguments

- DLF is uniquely positioned to leverage long-term opportunities in India. It has a significant presence in key cities and market leadership across segments.
- DLF has been quick to change gears in favor of high volume mid-income housing strategy and high value generating city-centric projects.
- The management has issued strong operational guidance for sales and leases across verticals in FY11. It hopes to achieve residential sales of 15m-18msf and lease 3m-4msf of commercial offices in FY11.

Key investment risks

- Debt equity in June 2010 is likely to increase to ~0.8x. During 4QFY10, DLF's gross debt increased by ~Rs45b to Rs21.6b.
- Any major delay in REIT listing plans will negatively impact the company.

Recent developments

- During 4QFY10, DLF's gross debt increased by ~Rs45b QoQ to ~Rs216.7b. As a result, gross debt-equity (after goodwill deduction) increased to ~0.73x in 4QFY10.
- Net debt equity (after goodwill deduction, but including CCPs) increased from ~0.52x to 0.56x in FY10.
- Total sales value achieved in FY10 was Rs71.5b and the average realization was Rs5,699/sf.

Valuation and view

- DLF trades at 31% discount to our revised FY12 NAV of Rs388, FY12 P/E of 17.9x and FY12 P/B of 1.7x.
- We expect DLF to benefit significantly from the expected revival in the commercial and retail verticals. A successful REIT listing at an attractive cap rate would be a key near term catalyst for the stock. **Buy**.

Sector view

- The real estate sector seems firmly set on the path to recovery, following the successful balance sheet recapitalization by key RE companies and the pick-up in RE activity. We believe key RE companies that have successfully completed their recapitalization exercise are well placed to capitalize on the growth phase ahead, as they can now shift focus to project execution and pursue NAV enhancement strategies.

COMPARATIVE VALUATIONS

		DLF	UNITECH	HDIL
P/E (x)	FY11E	24.1	16.4	13.4
	FY12E	17.9	12.2	10.6
P/BV (Rs)	FY11E	1.8	1.7	1.2
	FY12E	1.7	1.5	1.1
EV/Sales (x)	FY11E	7.1	6.7	3.6
	FY12E	5.4	3.7	1.8
EV/EBITDA (x)	FY11E	14.7	6.7	8.1
	FY12E	12.0	3.7	5.7

SHAREHOLDING PATTERN (%)

	MAR-10	DEC-09	MAR-09
Promoter	78.6	78.6	88.6
Domestic Inst	0.7	0.7	0.4
Foreign	14.9	15.4	6.4
Others	5.8	5.3	4.8

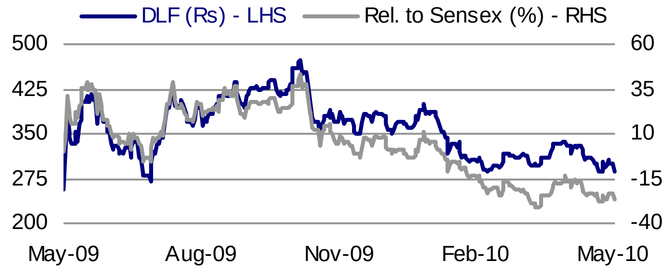
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY11	11.9	16.1	-26.0
FY12	16.0	22.3	-28.3

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
287	350	21.9	Buy

STOCK PERFORMANCE (1 YEAR)



Financials and Valuation

INCOME STATEMENT				(Rs MILLION)
Y/E MARCH	**2009**	**2010E**	**2011E**	**2012E**
Net Sales	**100,448**	**74,209**	**93,465**	**119,851**
Change (%)	*-30.4*	*-26.1*	*25.9*	*28.2*
EBITDA	**55,994**	**35,012**	**45,293**	**53,610**
% of Net Sales	*55.7*	*47.2*	*48.5*	*44.7*
Depreciation	2,390	3,246	3,550	3,778
Interest	5,548	11,075	14,374	12,941
Other Income	3,866	4,333	1,573	1,922
PBT	**51,922**	**25,024**	**28,943**	**38,813**
Tax	6,754	6,957	8,466	11,271
Rate (%)	*13.0*	*27.8*	*29.3*	*29.0*
Reported PAT	**44,696**	**17,300**	**20,477**	**27,542**
Extra-ordinary Income	-14	870	0	0
Adjusted PAT	**44,696**	**17,300**	**20,477**	**27,542**
Change (%)	*-42.8*	*-61.3*	*18.4*	*34.5*

BALANCE SHEET				(RS MILLION)
Y/E MARCH	**2009**	**2010E**	**2011E**	**2012E**
Equity Capital	3,444	3,444	3,444	3,444
Reserves	224,184	290,370	277,512	287,674
Pref Shares/ CCP's	13,906	59,146	28,146	13,906
Net Worth	**241,534**	**307,720**	**294,862**	**305,024**
Loans	163,201	216,770	193,906	175,849
Capital Employed	**410,657**	**533,400**	**497,678**	**489,783**
Goodwill	22,651	12,670	12,670	12,670
Gross Fixed Assets	84,867	178,740	193,340	205,866
Less: Depreciation	5,743	13,260	16,810	20,588
Net Fixed Assets	**79,124**	**165,480**	**176,530**	**185,278**
Capital WIP	56,882	111,820	95,218	62,685
Investments	14,025	55,200	9,960	9,960
Curr. Assets	**425,506**	**404,860**	**410,341**	**377,932**
Debtors	21,648	16,660	25,959	39,172
Cash & Bank Balance	11,956	9,130	15,731	19,224
Inventory	109,282	124,120	116,930	85,638
Loans and Advances	97,120	86,000	87,720	105,896
Current Liab. & Prov.	**78,244**	**92,510**	**90,111**	**73,105**
Creditors	41,404	54,660	68,946	61,834
Provisions	36,840	37,850	21,165	11,271
Net Current Assets	**237,980**	**188,230**	**203,300**	**219,190**
Application of Funds	**410,662**	**533,400**	**497,678**	**489,783**

E: MOSL Estimates

RATIOS				
Y/E MARCH	**2009**	**2010E**	**2011E**	**2012E**
Basic (Rs)				
Adjusted EPS	**26.0**	**10.0**	**11.9**	**16.0**
Growth (%)	*-43.4*	*-61.3*	*18.4*	*34.5*
Cash EPS	27.6	12.4	14.0	18.2
Book Value	127.1	171.3	163.9	169.8
DPS	1.6	1.0	1.2	1.6
Payout (incl. Div. Tax.)	6.9	11.9	11.4	11.4
Valuation (x)				
P/E	11.1	28.6	24.1	17.9
Cash P/E	10.4	23.2	20.6	15.8
EV/EBITDA	11.4	19.9	14.7	12.0
EV/Sales	6.4	9.4	7.1	5.4
Price/Book Value	2.3	1.7	1.8	1.7
Dividend Yield (%)	0.5	0.4	0.4	0.6
Profitability Ratios (%)				
RoE	18.5	5.6	6.9	9.0
RoCE	15.6	7.6	8.4	10.5
Leverage Ratio				
Debt/Equity (x)	0.7	0.7	0.7	0.6

CASH FLOW STATEMENT				(Rs Million)
Y/E MARCH	**2009**	**2010E**	**2011E**	**2012E**
PBT before Extraordinary Items	**51,922**	**25,024**	**28,943**	**38,813**
Add : Depreciation	2,390	3,246	3,550	3,778
Interest	5,548	11,075	14,374	12,941
Less : Direct Taxes Paid	6,754	6,957	8,466	11,271
(Inc)/Dec in WC	53,602	-46,924	8,469	12,397
CF from Operations	**-256**	**79,313**	**29,931**	**31,864**
(Inc)/Dec in FA	-38,364	-144,540	2,002	20,006
(Pur)/Sale of Investments	-4,923	-31,141	45,240	0
CF from Investments	**-43,287**	**-175,682**	**47,242**	**20,006**
(Inc)/Dec in Networth	2,271	53,980	-31,000	-14,240
(Inc)/Dec in Debt	40,430	53,569	-22,865	-18,056
Less : Interest Paid	5,548	11,075	14,374	12,941
Dividend Paid	3,090	2,060	2,334	3,140
CF from Fin. Activity	**34,064**	**94,413**	**-70,572**	**-48,377**
Inc/Dec of Cash	**-9,465**	**-2,826**	**6,601**	**3,493**
Add: Beginning Balance	21,421	11,956	9,130	15,731
Closing Balance	**11,956**	**9,130**	**15,731**	**19,224**

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Disclosure of Interest Statement	DLF
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No