

Asia India  
Property Property

Deutsche Bank 

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## COMPANY ALERT

### DLF

#### USD 140m fine is an overhang for DLF and the sector

## Breaking News

### Buy

Reuters:DLF.BO Exchange:BSE Ticker:DLF

Price (INR)	<b>189.00</b>
Price target (INR)	<b>275.00</b>
52-week range (INR)	<b>392.75 - 189.00</b>
Market cap (USDm)	<b>7,068</b>
Shares outstanding (m)	<b>1,697.2</b>
Net debt/equity (%)	<b>72.6</b>
Book value/share (INR)	<b>165.41</b>
Price/book (x)	<b>1.1</b>

FYE 3/31	2011A	2012E	2013E
Sales (INRm)	95,606	110,406	136,998
Net Profit (INRm)	16,432.5	20,373.2	29,093.8
DB EPS (INR)	9.68	12.00	17.14
PER (x)	30.7	15.7	11.0
Yield (net)	0.6	0.9	0.9

**Surprisingly large fine:** Competition Act of 2002 led to the setting up of the Competition Commission of India (CCI) & Competition Appellate Tribunal (CAT). Major provisions relating to anti-competitive agreements and abuse of dominant position were only notified in May'09. CCI's levy of a ~USD 140m fine on DLF (~7% of average revenue in last 3 years) seems to be its biggest stance till date.

**Key highlights of the 237 page order:** It details DLF's alleged misuse of its dominant position by framing a one-sided Apartment Buyer's Agreement (ABA) for Belaire (a high-end project with apartment cost of ~USD 0.4m in Gurgaon, NCR), offering the following rights to DLF (a) to refuse to execute any ABA without assigning any reason (b) to alter/delete building plan by only intimating the allottee and offering him an exit at 9% interest rate as against 18% interest rate on delayed payment by allottee. In Belaire, DLF exercised this option by increasing the project size from 368 units at initial launch to 564 (c) if DLF delays delivery post 3 years, the allottee can terminate the ABA but will receive the refund only after DLF re-sells the unit (d) DLF cancelled a few allotments for delay in payments by allottees, who forfeited part of earlier payments.

DLF defended itself in the order that (a) these are standard ABAs used by the industry (b) the allottees are quite well-to-do and had full capability in doing due diligence on project and ABA while signing (c) its relevant market-share is significantly less than the CCI's calculated 50% in FY10 & hence it is not a dominant player in Gurgaon.

**May be a long-drawn issue:** We believe that DLF's appeal to CAT may be unsuccessful. It then has recourse to the legal system - High Court & Supreme Court - where these issues would be discussed comprehensively.

**Our view:** (a) In a case in Dec'10 regarding the validity of prepayment charges levied by banks, CCI had held a view that "there is no bank which can be deemed to be dominant in the mortgage market" - this view on dominance seems at variance to that taken in this case. (b) While this case dwells entirely on Belaire, the fine is calculated on 7% of DLF's entire revenue. A 7% fine on our estimated DLF's revenue from Belaire (< USD 300m over 5 years) amounts to ~USD 21m. (c) This issue would be an overhang for the entire sector as most ABAs are similar.

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