

UPDATE

LARGE CAP

Share Data

Reuters code	DLF.BO
Bloomberg code	DLFU IN
Market cap. (US\$ mn)	12,374
6M avg. daily turnover (US\$ mn)	92.6
Issued shares (mn)	1,697.4
Target price (Rs)	304

Performance (%) 1M 3M 12M

Absolute	10	(6)	33
Relative	9	(11)	(15)

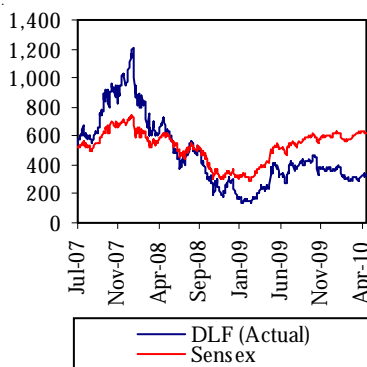
Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	13.2	17.3
+/- (%)	33.3	30.8
PER (x)	24.5	18.7
PBV (x)	2.0	1.8
Dividend/Yield (%)	0.6	0.6
EV/Sales (x)	6.8	5.7
EV/EBITDA (x)	17.0	13.7

Major shareholders (%)

Promoters	79
FII's	15
Public & Others	6

Relative performance



DLF

Maintain Underperformer

Price: Rs 323

BSE Index: 17,745

27 April 2010

Consolidation of annuity business – A precursor to REIT listing

DLF Limited (DLF) in an announcement to the stock exchanges stated that Caraf Builders & Constructions Pvt. Ltd. (a subsidiary company of DLF) has bought out 90% of compulsorily convertible preference shares (CCPS) issued by DLF Assets Ltd. (DAL) and held by DSIPL (a company owned by SC Asia Pte Ltd.). The event, though, a precursor to REIT listing of annuity properties held by the group, has come at the expense of DLF's shareholders value (~Rs 3.5 bn in our calculations). However, a cap rate compression on proposed REIT listing could more than compensate for the value forgone to increase economic interest.

Buyout at premium negative for shareholders in near term: Caraf bought out ~245.2 mn (of the total issued 272.5 mn) CCPS held by DSIPL for an aggregate sum of Rs 30.8 bn (against book value of Rs 24.5 bn). The transaction which took place at 26% premium to the book value results into losses to DLF's shareholders to the tune of Rs 3.5 bn. However, value accretion on proposed REIT listing, through cap rate compression, could make up for this loss due to increased effective economic interest. Moreover, response to recently listed Cache's logistics IPO (raised US\$ 300 mn) points towards improved appetite for REIT and augurs well for the company.

Buyout – DLF shareholders stand to lose

Particulars	Rs bn	Remarks
Consideration paid for acquisition CCPS	30.8	
Book value of CCPS acquired	24.5	Total issued 272.5 mn at a face value of Rs 100
Excess paid over book value	6.3	Since assumed to be redeemed at face value
Caraf's economic interest (%)	91.9	Assuming conversion of CCPS
Caraf's economic interest	5.8	
DLF's stake in Caraf (%)	60.0	Through DLF Cybercity Ltd. – 60% owned subsidiary post integration
DLF shareholder's share in loss	3.5	

Source: Company, B&K Research

DAL's effective shareholding structure – Assuming CCPS conversion

Shareholders	(%)	Remarks
DLF	55.1	DLF holds 60% stake in DLF Cybercity which owns 91.9% in DAL
Promoters	36.8	Promoters hold 40% stake in DLF Cybercity which owns 91.9% in DAL
SC Asia	4.6	
DE Shaw	3.5	

Source: Company, B&K Research

Net debt set to increase: Though said to be funded through available cash and internal accruals, the buyout will reduce cash levels considerably, thereby resulting in increase in net debt levels. Moreover consolidation of Caraf's debt on integration of Caraf with DLF would also result in increase in absolute net debt.

B&K's view

On our existing estimates, DLF's valuation looks a tad expensive on relative basis and seems to have factored in REIT listing to a certain extent. Though we are seeing some activity in commercial real estate space, material revival in demand is still sometime away. This rightly is not reflecting on the stocks as well (residential story seems to be better factored in by the markets). Moreover, we are not comfortable with changing strategy from focus on volumes to value across the sector. DLF is no exception to this and its proposed entry into value homes segment is yet to see action at the ground level. The company in recent past has launched projects only in upper middle class segment. We maintain Underperformer rating on the stock with an estimated fair value per share (FVPS) of Rs 304.

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10E	FY11E	FY12E
Net Sales	100,354	73,331	101,830	122,814
<i>Growth (%)</i>	<i>(30.0)</i>	<i>(27.0)</i>	<i>39.0</i>	<i>21.0</i>
Operating Expenses	(44,355)	(40,154)	(60,722)	(72,088)
Operating Profit	55,999	33,177	41,108	50,726
EBITDA	55,999	33,177	41,108	50,726
<i>Growth (%)</i>	<i>(42.4)</i>	<i>(40.8)</i>	<i>23.9</i>	<i>23.4</i>
Depreciation	(2,390)	(3,136)	(3,597)	(4,063)
Other Income	3,861	3,524	3,083	3,607
EBIT	57,470	33,565	40,594	50,269
Interest Paid	(5,548)	(10,202)	(8,636)	(7,934)
Pre-tax profit	51,922	23,363	31,958	42,335
(before non-recurring items)				
Pre-tax profit	51,922	23,363	31,958	42,335
(after non recurring items)				
Tax (current + deferred)	(6,754)	(6,218)	(9,106)	(12,450)
Net Profit	45,168	17,145	22,852	29,885
Prior period adjustments	14	0	0	0
Minority interests	(486)	(346)	(461)	(603)
Reported PAT	44,696	16,799	22,391	29,282
Adjusted net profit	44,682	16,799	22,391	29,282
<i>Growth (%)</i>	<i>(42.8)</i>	<i>(62.4)</i>	<i>33.3</i>	<i>30.8</i>

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10E	FY11E	FY12E
Current assets	318,579	300,258	299,642	327,504
Cash & Marketable Sec.	14,311	10,436	14,170	25,729
Other Current Assets	304,268	289,822	285,472	301,775
Investments	11,670	13,065	13,065	13,065
Net fixed assets	158,657	163,130	162,484	160,503
Other non-current assets	414	790	790	791
Total assets	489,320	477,243	475,982	501,863
Current Liabilities	78,244	64,447	60,020	68,791
Total debt	163,201	156,489	140,773	131,969
Total Liabilities	241,445	220,935	200,793	200,761
Share capital	17,354	12,779	12,779	12,779
Reserves & Surplus	224,183	236,847	255,267	280,577
Shareholders' funds	241,538	249,626	268,046	293,356
Minorities interests	6,336	6,682	7,143	7,746
Total equity & liabilities	489,320	477,243	475,982	501,863
Capital employed	411,075	412,797	415,962	433,072

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10E	FY11E	FY12E
Pre-tax profit	51,922	23,363	31,958	42,335
Depreciation	(2,390)	(3,136)	(3,597)	(4,063)
Chg in working capital	(61,327)	2,917	8,208	(13,229)
Total tax paid	(183)	(9,145)	(17,391)	(6,754)
Cash flow from oper. (a)	(7,198)	20,271	26,372	26,416
Capital expenditure	(40,003)	(7,609)	(2,951)	(2,082)
Chg in investments	(4,923)	(1,395)	0	0
Others	(82)	0	0	0
Cash flow from inv. (b)	(45,008)	(9,004)	(2,951)	(2,082)
Free cash flow (a+b)	(52,206)	11,267	23,421	24,334
Equity raised/(repaid)	4,458	(4,577)	0	0
Debt raised/(repaid)	41,114	(6,713)	(15,716)	(8,803)
Dividend (incl tax.)	(4,018)	(3,689)	(3,972)	(3,972)
Cash flow from fin. (c)	42,741	(15,142)	(19,687)	(12,775)
Net chg in cash (a+b+c)	(9,465)	(3,875)	3,734	11,559

Key Ratios

Yr end 31 Mar (%)	FY09	FY10E	FY11E	FY12E
Adjusted EPS (Rs)	26.3	9.9	13.2	17.3
Growth	(42.6)	(62.4)	33.3	30.8
Book NAV/Share (Rs)	146.0	151.0	162.1	177.4
Dividend/Share (Rs)	2.0	2.0	2.0	2.0
Dividend payout ratio	8.3	23.6	17.7	13.6
Tax	13.0	26.6	28.5	29.4
EBITDA margin	55.8	45.2	40.4	41.3
EBIT margin	57.3	45.8	39.9	40.9
RoCE	15.7	8.1	9.8	11.8
Net debt/Equity	60.1	57.0	46.0	35.3

Valuations

Yr end 31 Mar (x)	FY09	FY10E	FY11E	FY12E
PER	12.3	32.6	24.5	18.7
PCE	11.6	27.5	21.1	16.4
Price/Book	2.2	2.1	2.0	1.8
Yield (%)	0.6	0.6	0.6	0.6
EV/Net sales	6.9	9.5	6.8	5.7
EV/EBITDA	12.4	21.0	17.0	13.7

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10E	FY11E	FY12E
Net margin (%)	44.5	22.9	22.0	23.8
Asset turnover	0.2	0.2	0.2	0.3
Leverage factor	2.0	1.9	1.8	1.7
Return on equity (%)	19.9	6.7	8.4	10.2

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Analyst Declaration: We, Chockalingam Narayanan & Prem Khurana, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
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