

RESULTS

REVIEW

DLF Ltd.

Financial performance and debt accretion in-line

REDUCE

Analyst

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Nifty: 5,169; Sensex: 17,193

CMP	Rs228
Target Price	Rs205
Potential Upside/Downside	(10)%

Key Stock Data

Sector	Realty
Bloomberg / Reuters	DLFU IN / DLF.BO
Shares o/s (mn)	1,698.1
Market cap. (Rs mn)	387,768
Market cap. (US\$ mn)	7,712
3-m daily average vol.	1,121,915

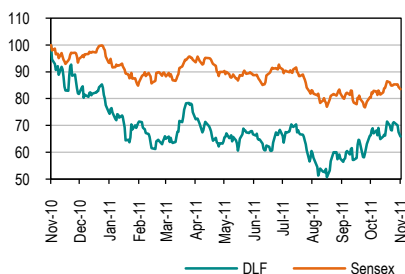
Price Performance

52-week high/low	Rs387/173		
	-1m	-3m	-12m
Absolute (%)	(1)	11	(34)
Rel to Sensex (%)	(5)	(16)	(13)

Shareholding Pattern (%)

Promoters	78.6
FII/IRIs/OCBs/GDR	15.7
MFs/Banks/FIs	0.4
Non Promoter Corporate	1.1
Public & Others	4.2

Relative to Sensex



Source: Capitaline

Summary

While financial performance was largely in-line with our estimate, operational data (DevCo sales down 42% QoQ, leasing down 10% QoQ) was below our and street expectations. Net debt increased 6% QoQ to Rs242.7 bn. Given the weak demand environment and significant fixed cost obligations (SG&A + Interest expense), DLF will continue to disappoint on the debt reduction front, in our view. We have downgraded the stock from HOLD to REDUCE, with a revised TP of Rs205 (earlier Rs220).

Result Highlights

- Financial Performance:** Revenue and earnings were largely in-line with our estimates at Rs25.3 bn (+7% YoY / +4% QoQ) and Rs3.7 bn (-11% YoY / +4% QoQ), respectively. However, OPM was 130bps higher than our estimate at 46.3%, led by higher share of plotted sales. Interest expense increased by 6%/21% QoQ/YoY to Rs5.2 bn, on account of 6% QoQ increase in net debt to Rs242.7 bn. DLF incurred Rs2.3 bn towards capex and land replenishment, while non-core asset monetization stood at Rs2.5 bn during the quarter.
- Operational Performance:** New bookings at 1.3 msf (-42% QoQ / -38% YoY) was significantly below our (1.8 msf) and street estimates. Leasing activity too remained subdued with DLF booking lease of 0.67 msf during the quarter, compared to 0.73 msf in Q1FY12.
- Concall Takeaways:** DLF attributed lower DevCo sales to approval delays and lower availability of inventory. The management expects pick-up in new bookings in H2FY12, led by 7-8 msf of new launches in Bangalore, Chandigarh, Gurgaon and Lucknow. The management reiterated its capex guidance of Rs6 bn for FY12 (~Rs2.5 bn incurred in H1FY12). DLF also expects to bring down the net debt to Rs195 bn by FY12-end.

Outlook and Valuation

We have been disbelievers in the DLF's asset monetization story. In our view, DLF will continue to disappoint on the debt reduction front due to weak operational data. Even if DLF were to slowdown the execution on its DevCo and rental properties, it will have to maintain a quarterly sales run rate of 2.0-2.5 msf to maintain debt at current levels. However, this seems unlikely given the weak demand environment. We have lowered our FY12/13 DevCo sales assumption to 6.6/11.6 msf (earlier 8.4/13.6 msf). Consequently, we have cut our FY12/13 earnings estimate by 18%/7% to Rs13.4/Rs15.3 bn. We downgrade the stock from HOLD to **REDUCE**, with a revised **TP of Rs205** (earlier Rs220).

Table: Financial snapshot

(Rs mn)

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY09	100,354	55,900	55.7	44,696	26.2	8.7	10.0	18.9	11.9
FY10	74,228	35,116	47.3	17,198	10.1	22.5	18.8	7.0	4.5
FY11	95,605	37,527	39.3	16,396	9.7	23.6	17.0	6.6	4.6
FY12E	98,033	45,095	46.0	13,391	7.9	28.9	14.4	5.2	5.2
FY13E	100,964	46,443	46.0	15,310	9.0	25.3	14.2	5.7	5.1

Source: Company; IDBI Capital Research

Table: Quarterly performance

(Rs mn)

Year-end: March	2QFY11	2QFY12	Change (%)	2QFY12E	Variation (%)
Revenue	23,690	25,324	6.9	24,570	3.1
Operating Exp	14,401	13,594	(5.6)	13,514	0.6
EBDITA	9,289	11,730	26.3	11,057	6.1
<i>EBDITA margins (%)</i>	39.2	46.3		45.0	
Depreciation	1,540	1,753	13.9	1,725	1.6
EBIT	7,749	9,977	28.7	9,332	6.9
<i>EBIT margins (%)</i>	32.7	39.4		38.0	
Other Income	1,509	448	(70.3)	500	(10.5)
Interest	4,338	5,263	21.3	4,800	9.6
PBT	4,920	5,161	4.9	5,032	2.6
Tax	734	1,475	100.9	1,258	17.3
Tax Rate	14.9	28.6		25.0	
PAT	4,186	3,686	(11.9)	3,774	(2.3)
Minority Interest	(69)	0	(100.6)	(150)	
Share of Profit/(Loss) in Associates	(1)	(5)	820.0	40	
Prior period adjustments (net)	67	42	(37.6)	0	
Net Profit	4,184	3,724	(11.0)	3,664	1.6
<i>Net Profit margin (%)</i>	17.7	14.6		15.4	
EPS (Rs)	12.6	11.2	(11.0)	11.0	1.6

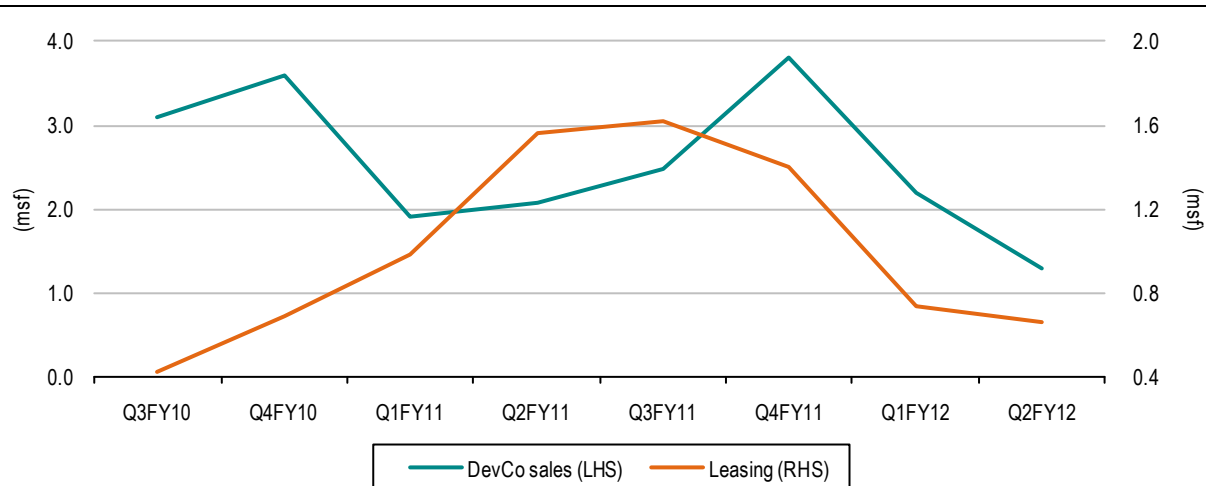
Source: Company

Table: NAV and target price

	Rs mn	Rs/share	Comments
Residential, Retail and commercial sales	178,723	105	Based on NAV
Market value of land	195,069	114	Valued at Rs950 psf less balance payment
Value of Rental assets	98,942	58	Rental portfolio of 24 msf; valued at 11% cap rate
Other assets	102,784	60	Power, Aman Hotel and other assets
GAV	575,518	338	
Less: Net Debt	(226,442)	(133)	
NAV	349,075	205	

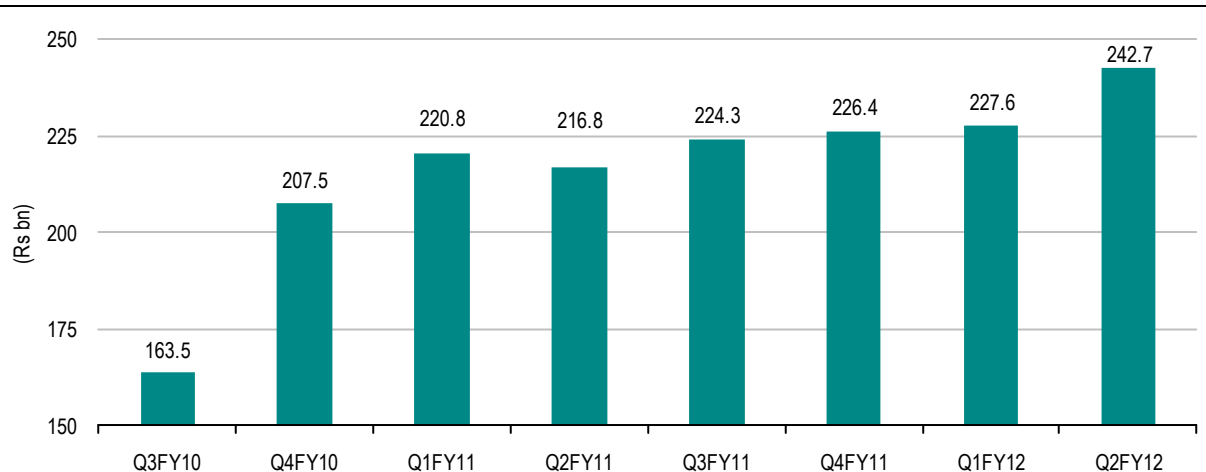
Source: Company; IDBI Capital Research

Figure: Weak operational performance in H1FY12



Source: Company

Figure: Debt continues to rise



Source: Company

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY09	FY10	FY11	FY12E	FY13E
Net sales	100,354	74,228	95,605	98,033	100,964
Growth (%)	(30.5)	(26.0)	28.8	2.5	3.0
Operating expenses	(44,454)	(39,113)	(58,079)	(52,938)	(54,520)
EBITDA	55,900	35,116	37,527	45,095	46,443
Growth (%)	(42.4)	(37.2)	6.9	20.2	3.0
Depreciation	(2,390)	(3,249)	(6,307)	(7,088)	(7,797)
EBIT	53,510	31,867	31,219	38,007	38,646
Interest paid	(5,548)	(11,100)	(17,056)	(21,242)	(19,193)
Other income	3,960	4,280	5,839	2,277	2,323
Pre-tax profit	51,922	25,046	20,002	19,042	21,776
Tax	(6,754)	(7,022)	(4,594)	(5,713)	(6,533)
Effective tax rate (%)	13.0	28.0	23.0	30.0	30.0
Net profit	45,168	18,024	15,408	13,330	15,243
Adjusted net profit	44,696	17,198	16,396	13,391	15,310
Growth (%)	(42.8)	(61.5)	(4.7)	(18.3)	14.3
Shares o/s (mn nos)	1,705	1,697	1,697	1,697	1,697

Balance Sheet

(Rs mn)

Year-end: March	FY09	FY10	FY11	FY12E	FY13E
Net fixed assets	158,657	289,548	295,682	308,564	322,577
Investments	14,025	55,052	9,958	9,958	9,958
Other non-curr assets	414	-	1,633	1,633	1,633
Current assets	316,224	273,058	332,717	343,946	343,512
Inventories	109,282	124,806	150,388	153,406	156,494
Sundry Debtors	21,648	16,190	17,257	21,567	21,202
Cash and Bank	11,956	9,282	13,461	9,867	9,230
Loans and advances	97,120	75,933	72,712	80,712	82,712
Total assets	489,319	617,658	639,990	664,101	677,680
Shareholders' funds	227,578	245,129	245,218	253,803	263,827
Share capital	3,394	3,395	3,395	3,395	3,395
Reserves & surplus	224,184	241,734	241,823	250,408	260,432
Total Debt	163,201	216,766	239,903	249,903	255,903
Secured loans	163,201	216,766	239,903	249,903	255,903
Unsecured loans	-	-	-	-	-
Other liabilities	183,497	284,758	263,757	273,757	279,757
Curr Liab & prov	115,084	129,173	169,777	177,270	175,397
Current liabilities	78,244	87,771	131,014	136,541	134,096
Provisions	36,841	41,402	38,763	40,729	41,301
Total liabilities	261,741	372,529	394,771	410,298	413,853
Total equity & liabilities	489,319	617,657	639,990	664,101	677,680
Book Value (Rs)	133	144	144	150	155

Cash Flow Statement

(Rs mn)

Year-end: March	FY09	FY10	FY11	FY12E	FY13E
Profit after tax	44,696	17,198	16,396	13,391	15,310
Depreciation	2,390	3,249	6,307	7,088	7,797
Chg in working capital	(54,285)	50,020	(12,239)	(9,439)	(2,648)
Other operating activities	(633)	22,145	-	-	-
Cash flow from operations (a)	(7,832)	92,613	10,464	11,040	20,460
Capital expenditure	(38,283)	(148,384)	(11,265)	(19,828)	(21,810)
Chg in investments	(4,923)	(41,027)	45,094	-	-
Cash flow from investing (b)	(43,206)	(189,411)	33,830	(19,828)	(21,810)
Equity raised/(repaid)	(15)	0	0	-	-
Pref capital raised/(repaid)	4,464	45,239	-	-	-
Debt raised/(repaid)	41,114	53,565	23,136	10,000	6,000
Dividend (incl. tax)	(3,989)	(3,972)	(4,369)	(4,806)	(5,287)
Cash flow from financing (c)	41,573	94,832	18,768	5,194	713
Net chg in cash (a+b+c)	(9,465)	(1,966)	63,061	(3,593)	(637)

Financial Ratios

Year-end: March	FY09	FY10	FY11	FY12E	FY13E
Adj. EPS (Rs)	26.2	10.1	9.7	7.9	9.0
Adj. EPS growth (%)	(42.8)	(61.4)	(4.7)	(18.3)	14.3
EBITDA margin (%)	55.7	47.3	39.3	46.0	46.0
Pre-tax margin (%)	51.7	33.7	20.9	19.4	21.6
ROE (%)	18.9	7.0	6.6	5.2	5.7
ROCE (%)	11.9	4.5	4.6	5.2	5.1
Turnover & Leverage ratios (x)					
Asset turnover (x)	0.2	0.1	0.2	0.2	0.2
Leverage factor (x)	2.1	2.3	2.6	2.6	2.6
Net margin (%)	44.5	23.2	17.1	13.7	15.2
Net Debt / Equity (x)	0.7	0.8	0.9	0.9	0.9
Working Capital & Liquidity ratios					
Inventory days	397	614	574	571	566
Receivable days	79	80	66	80	77
Payable days	191	142	240	296	254

Valuation

Year-end: March	FY09	FY10	FY11	FY12E	FY13E
PER (x)	8.7	22.5	23.6	28.9	25.3
Price / Book value (x)	1.7	1.6	1.6	1.5	1.5
PCE (x)	8.3	18.9	17.0	18.9	16.7
EV / Net sales (x)	5.6	8.9	6.7	6.6	6.5
EV / EBITDA (x)	10.0	18.8	17.0	14.4	14.2
Dividend Yield (%)	0.9	0.9	1.0	1.1	1.2



Notes

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Key to Ratings

Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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