

Morgan Stanley India Company
Private Limited+

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Stock Rating
Overweight

Industry View
In-Line

DLF Limited

Down Year, Cutting EPS Estimates for Lower Sales Volumes

What's Changed

| | |
|-----------------|-----------------------------|
| Price Target | Rs359.00 to Rs287.00 |
| F11e & F12e EPS | Down 35% each |

F3Q11 results: DLF reported a 22% yoy (5% qoq) rise in sales and 5.9 ppt OPM expansion to 47.5% (due to higher margin plot sales). Together with higher interest and depreciation costs, this led to a 2% yoy rise in net profits to Rs4.7 bln (our estimate was Rs4.2 bln). Total income included Rs3.4 bln contribution from rental income and Rs4 bln from sale of non core assets (at single digit margins). DLF capitalized roughly Rs2.3 bln interest costs.

Operational update: Strong leasing volumes (1.62 msf, 4.2msf for F9M11 ahead of 3-4 msf F11 target) was the bright spot for the quarter. Development business, as expected, was a disappointment (due to lack of new launches) with 2.5 msf sales (F9M11 pre-sales of 6.5 msf vs. F11 guidance of 12-15msf). Importantly, the lucrative Mumbai launch could be further delayed by 2-3 quarters. Net gearing went up sequentially to 79% (73% as of September 2010) due to strategic land investment (Manesar and Chandigarh). Deleveraging could take a while in view of DLF's plan to invest in new land for two to three quarters (Rs3-4 bln per quarter). DLF detailed six project launches in the near term with 8msf sales potential to make up for the year (Exhibit 1).

Impact on our views: We have cut our F11-12 EPS estimates to account for delay in the Mumbai project and 25% lower volumes. Our F12-13 EPS estimates assume 18-19 msf (including rental assets) and F2H12 Mumbai launch. We retain our OW rating in view of prospects for scaling up execution (new launch momentum), stable recovery in the physical market, deep land bank (NTC, SIEL, Phase V, Chanakyapuri, rental assets built up), and 31% discount to revised March 2012e NAV.

Key Ratios and Statistics

Reuters: DLF.BO Bloomberg: DLFU IN

India Property

| | |
|---------------------------------|-----------------|
| Price target | Rs287.00 |
| Up/downside to price target (%) | 30 |
| Shr price, close (Feb 1, 2011) | Rs220.80 |
| 52-Week Range | Rs397.35-214.85 |
| Sh out, dil, curr (mn) | 1,697 |
| Mkt cap, curr (mn) | Rs374,784 |
| EV, curr (mn) | Rs592,692 |
| Avg daily trading value (mn) | Rs408 |

| Fiscal Year ending | 03/10 | 03/11e | 03/12e | 03/13e |
|---------------------------|--------|--------|--------|--------|
| ModelWare EPS (Rs) | 10.69 | 10.16 | 12.15 | 14.31 |
| Prior ModelWare EPS (Rs) | - | 15.59 | 18.55 | 22.29 |
| Consensus EPS (Rs)§ | 10.46 | 13.01 | 17.08 | 21.60 |
| ModelWare net inc (Rs mn) | 18,140 | 17,242 | 20,630 | 24,291 |
| P/E | 28.9 | 21.7 | 18.2 | 15.4 |
| P/BV | 2.1 | 1.4 | 1.4 | 1.3 |
| ROE (%) | 8.0 | 7.0 | 7.9 | 8.8 |

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by FactSet Estimates.

e = Morgan Stanley Research estimates

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Financial Summary

Income Statement

| Rs Million | 2010E | 2011E | 2012E | 2013E |
|----------------------------------|---------------|---------------|---------------|---------------|
| Total Income | 74,229 | 91,191 | 89,631 | 95,540 |
| % Growth | -26 | 23 | -2 | 7 |
| Operating Expenditure | 39,113 | 52,477 | 43,441 | 44,314 |
| Cost of revenue | 25,795 | 38,493 | 28,660 | 28,269 |
| Establishment expenses | 4,668 | 4,901 | 5,244 | 6,031 |
| Other expenses | 8,650 | 9,082 | 9,536 | 10,013 |
| Operating Profits | 35,116 | 38,714 | 46,190 | 51,227 |
| % Growth | -37 | 10 | 19 | 11 |
| % Margins | 47 | 42 | 52 | 54 |
| Other Income | 4,280 | 4,494 | 4,719 | 4,719 |
| Finance charges | 11,100 | 14,371 | 16,649 | 15,701 |
| Depreciation | 3,249 | 5,024 | 5,707 | 6,067 |
| Profit before Tax | 25,046 | 23,814 | 28,554 | 34,178 |
| Provision for tax | 7,022 | 6,192 | 7,424 | 8,886 |
| PAT (before minority int) | 18,024 | 17,622 | 21,130 | 25,291 |
| Loss/ (profit) in associates | (8) | - | - | - |
| Minority Interest | (108) | 380 | 500 | 1,000 |
| Net Profit | 18,140 | 17,242 | 20,630 | 24,291 |

Balance Sheet

| Rs Million | 2010E | 2011E | 2012E | 2013E |
|---------------------------------|----------------|----------------|----------------|----------------|
| Share capital | 3,395 | 3,395 | 3,395 | 3,395 |
| Reserves | 151,099 | 165,755 | 183,290 | 205,153 |
| Net Worth | 245,129 | 259,785 | 277,320 | 299,182 |
| Minority interest | 6,278 | 6,278 | 6,278 | 6,278 |
| Preferential Share Capital/CCPS | 59,199 | 19,929 | 19,929 | 19,929 |
| Loan Funds | 216,766 | 226,000 | 215,000 | 191,000 |
| Deferred tax liability (net) | 2,515 | 2,515 | 2,515 | 2,515 |
| Total Liabilities | 529,886 | 514,506 | 521,041 | 518,903 |
| <i>Net Debt</i> | <i>163,443</i> | <i>196,197</i> | <i>180,053</i> | <i>158,538</i> |
| Total Fixed Assets | 276,868 | 273,184 | 277,674 | 285,780 |
| Investments | 55,052 | 25,782 | 25,782 | 25,782 |
| Cash and bank balances | 9,282 | 9,177 | 14,321 | 11,837 |
| Goodwill | 12,680 | 12,680 | 12,680 | 12,680 |
| Current Assets | | | | |
| Inventory | 124,806 | 141,394 | 145,778 | 145,706 |
| Sundry debtors | 16,190 | 16,190 | 16,190 | 16,190 |
| Other current assets | 46,847 | 46,847 | 46,847 | 46,847 |
| Loans and advances | 75,933 | 75,405 | 72,128 | 68,443 |
| Current liab and provisions | 87,771 | 86,153 | 90,357 | 94,362 |
| Net Current Assets | 176,004 | 193,683 | 190,584 | 182,824 |
| Total Assets | 529,886 | 514,506 | 521,041 | 518,903 |

Cash Flow Statement

| Rs Million | 2010E | 2011E | 2012E | 2013E |
|---|------------------|-----------------|-----------------|-----------------|
| Cash flow from operating activities: | | | | |
| Net Profits | 18,140 | 17,242 | 20,630 | 24,291 |
| add depreciation | 3,249 | 5,024 | 5,707 | 6,067 |
| add working capital required | 50,020 | (17,679) | 3,099 | 7,760 |
| Other Balance Sheet Adjustments | - | - | - | - |
| Net cash from operations | 71,409 | 4,587 | 29,435 | 38,118 |
| Cash flow from investing activities | | | | |
| fixed asset investments | (144,112) | (1,339) | (10,197) | (14,174) |
| Other investments | (31,056) | 29,270 | - | - |
| Net cash from investing | (175,168) | 27,931 | (10,197) | (14,174) |
| Cash flow from financing activities | | | | |
| Issuance of equity | 5,057 | 0 | (0) | 0 |
| Dividends (incl dividend tax) | 5,646 | 2,586 | 3,094 | 2,429 |
| Other adjustments | 48,109 | (39,270) | - | - |
| Net cash from financing | 47,520 | (41,856) | (3,094) | (2,429) |
| (Increase)/decrease in net debt | (56,239) | (9,338) | 16,144 | 21,515 |

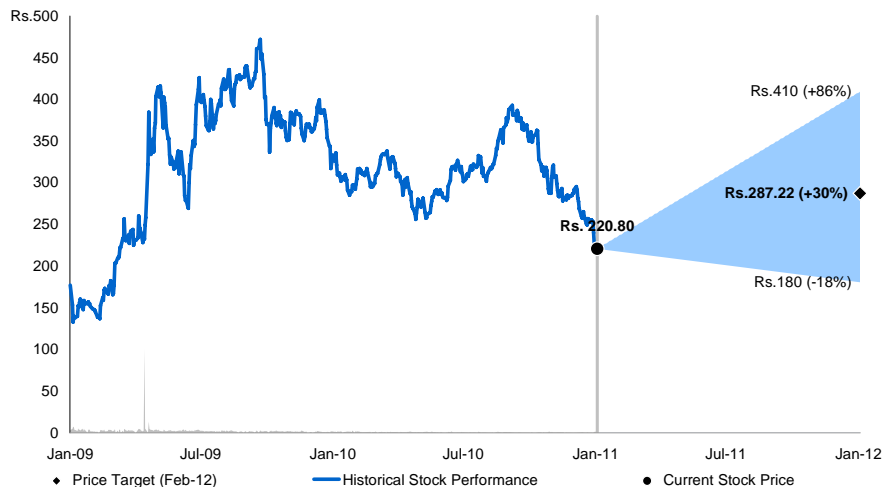
Key Ratios

| | 2010E | 2011E | 2012E | 2013E |
|---|-------|-------|-------|-------|
| Profitability Ratios | | | | |
| Operating Margin (%) | 47 | 42 | 52 | 54 |
| Pre-tax Margin (%) | 34 | 26 | 32 | 36 |
| Net Margin (Excl Extraordinary Items) (%) | 24 | 19 | 23 | 25 |
| Valuation Ratios | | | | |
| ROE (%) | 8 | 7 | 8 | 8 |
| ROCE (%) | 8 | 7 | 9 | 10 |
| Leverage Ratios | | | | |
| Net Debt/Equity | 0.7 | 0.8 | 0.6 | 0.5 |
| Total Debt/Equity | 0.9 | 0.9 | 0.8 | 0.6 |
| Per Share data | | | | |
| EPS | 10.7 | 10.2 | 12.2 | 14.3 |

Source: Company data, Morgan Stanley Research

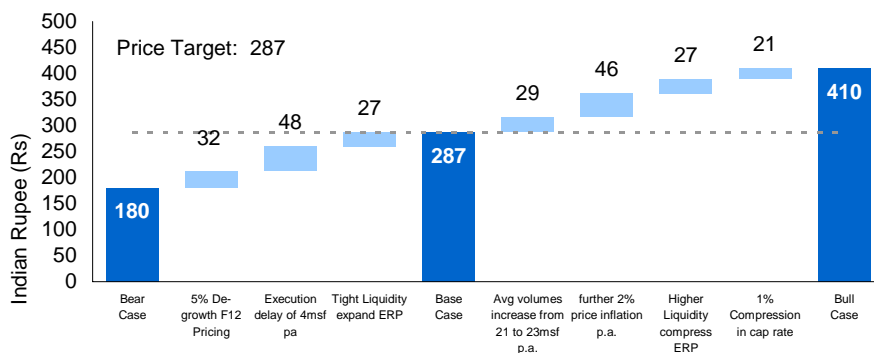
Risk-Reward Snapshot: DLF Ltd. (DLF.BO, Rs221, OW, PT Rs287)

Steady Execution Ramp-up in a Stable Physical Property Market



| | | |
|---------------------------|--|--|
| Price Target Rs287 | We apply a 10% discount to our March 2012 base case NAV estimate | |
| Bull Case Rs410 | 33.7x F12e EPS, 28.6x F13e EPS | Strong real estate market, strong execution: Average volume over next 14 years moves from 21msf to 23msf (Rs29/share), further 2% price inflation p.a. (Rs46/share), higher liquidity compressing ERP (Rs27/share), 1% cap rate compression (Rs21/share). |
| Base Case Rs287 | 23.6x F12e EPS, 20.1x F13e EPS | Steady execution ramp-up: Includes March 2012E NAV of Rs319 with base case at 10% discount to this forward NAV. NAV valuation assumes 14% discount rate, 5% price/cost inflation from F2012, and 9-12% cap rate. |
| Bear Case Rs180 | 14.8x F12e EPS, 12.6x F13e EPS | Delay in execution, adverse macro outlook: Bear case assumes 5% decline in F12 pricing (Rs32/share), execution delay of 4msf p.a. (Rs48/share), and tight liquidity expanding ERP (Rs27/share) |

Bear to Bull: Pricing, Volumes, and Liquidity Are Key Drivers



Source: Morgan Stanley, FactSet

Why Overweight?

- We cite prospects for execution ramp up, stable recovery in the physical market, trailing underperformance and depth in the land bank.
- **Macro themes to drive longer-term demand:** These include India's GDP growth, urbanization, strong demographics, rising affordability, customer preference shifting to organized players, and easy credit availability.
- **DLF is well positioned to benefit longer term:** Sizable, quality land bank, augmenting execution skills, yields scale-up visibility on top of stretched but improving balance sheet (F12 onwards).

Key Value Drivers

- **Execution scale-up:** Higher construction and delivery volumes
- **Pace of new launches and market absorption**
- **Macro outlook:** GDP growth, interest rate upcycle, inflation, and liquidity.
- **Monetization** of non-core assets.]

Potential Catalysts

- Gurgaon, Plots, Kochi, Mumbai etc large ticket launches.
- Stabilization and rise in selling prices.
- Sustained commercial pre-leasing]
- Large ticket non core asset sales – hotels, Tidco, Dwarka

Risks

- Adverse macro environment
- Lower than expected new launches by DLF and/or high pricing inconsistent with the affordability
- Sluggish demand in the physical property market;
- Slower pre-leasing in rental projects;
- Shortfall in company's non-core asset sales target; and
- Oversupply in key markets

Investment Case: We Retain Our Overweight Rating

Our New Price Target Is Rs287 per Share

Earnings Estimate Changes

- **F11 – 34.9% EPS cut** – This largely reflects delay in the launch of the lucrative Mumbai project, lower plotted sales and an overall 17% volume cut.
- **F12 – 34.5% EPS cut** – This stems mainly from a 26% cut in volume estimates (now 18msf including rental assets) and lower contribution from Mumbai project (0.45 msf).

We now value the stock at a 10% discount to our March 2012 NAV estimate of Rs319 (our previous price target of Rs359 was derived using our March 2011E NAV of Rs359 at par). Please see Exhibit 13 and Exhibit 14 (NAV calculation methodology).

Q3-11 Conference Call Highlights

Management outlook: Management cited stability in leasing momentum in the commercial office business (Exhibit-3: 4msf+ leased YTD, ahead of 3-4msf full year guidance), though rentals remained static. Volume pickup in the retail segment is expected to be about 2-3 quarters away, per management. Management maintains a long-term operating margin outlook of 45%, even though rising commodity and labor prices have caused erosion. Continued increase in borrowing costs (10.8% in December 2010, 30bps QoQ expansion) and mortgage rates could dampen the outlook, per management.

Execution: DLF expects to launch about 8msf of new projects (Exhibit 1), mostly in Q4-11. Three of these projects (luxury projects in Kochi and Delhi, commercial project in Gurgaon) have already been soft-launched in January 2011. The company is consolidating its land parcels in New Gurgaon and Greater Chandigarh, bracing for about 5msf of residential plotted launch (viewed by management as an important offering to accelerate cash flows and minimize execution and margin risk). Launch of NTC mills in Mumbai is expected to be after 2-3 quarters. In pre-sales, DLF has registered about 6.5msf YTD (Ex-3) against its full-year guidance of 12-15msf.

Deleveraging: Management intends to deleverage to 60% (leverage at 79% as of December 2010, refer to Exhibit 2) by the end of FY12. That implies about Rs35bn of net operating surplus (not including further land purchases and planned capex of Rs3-4bn / qtr, per management). The deleveraging plan is to be supported by operations (YTD rate of net operating surplus before interest / dividend outgo ~ Rs6-8bn /

quarter) and non-core asset divestment (Rs11bn achieved YTD, short of management's Rs45bn target by Rs16bn).

Land bank: Land bank stood at 399msf (Refer Ex-4) as of December 2010, down 7msf QoQ due to sale of non-core assets in locations such as New Gurgaon, Pune and Amritsar for Rs4 bn. Management highlighted that such land sales are typically done at prices close to acquisition levels (~2-3% margins). The company also expects increased activity in locations outside NCR in FY12 with launches in Hyderabad, Chennai, Goa, Bangalore, Kochi, Lucknow and Indore.

Exhibit 1

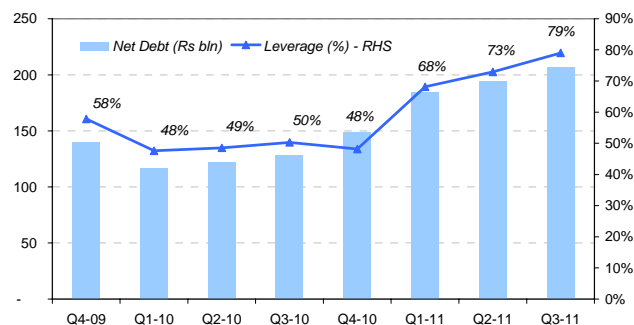
DLF: Indicative New Launches Planned

| Project | Location | Area (msf) |
|--------------------------|---------------------------|------------|
| Resi Plotted Development | Near Chandigarh / Gurgaon | 5.0 |
| Luxury Housing | Kochi | 0.6 |
| Group Housing | Gurgaon | 1.0 |
| City Center Commercial | Gurgaon | 1.0 |
| Commercial Complex | Delhi | 0.5 |
| Super Luxury Housing | Delhi | 0.3 |
| Total | | 8.4 |

Source: Company data, Morgan Stanley Research

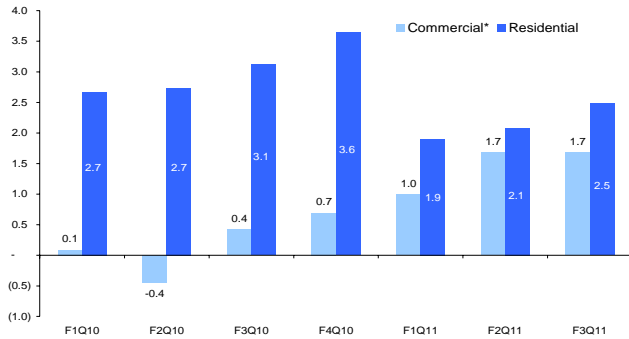
Exhibit 2

DLF: Movement in Leverage



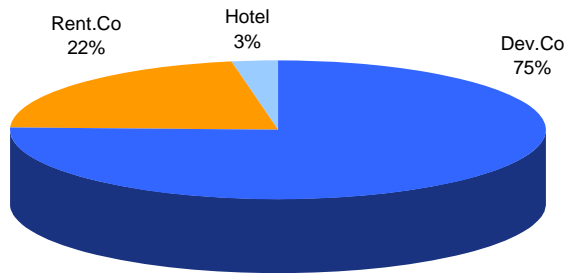
Source: Company data, Morgan Stanley Research;
Note: Net Debt excludes Preference Capital

Exhibit 3
DLF: Sales / Lease Booked (msf)



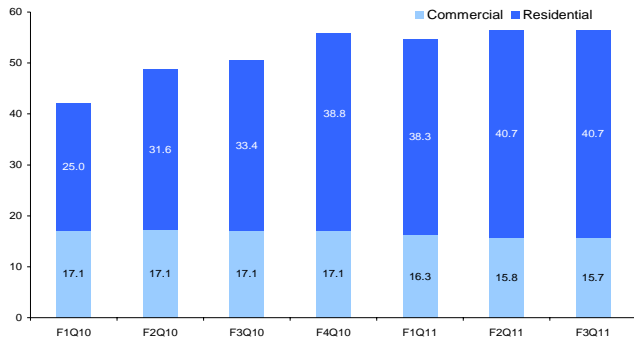
Source: Company data, Morgan Stanley Research;
* Commercial leases are net of any cancellations

Exhibit 4
DLF: Land Bank Break-up (399 msf)



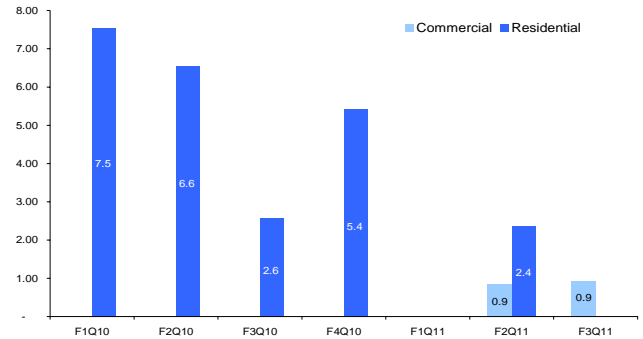
Source: Company data, Morgan Stanley Research

Exhibit 5
DLF: Area under Execution (msf)



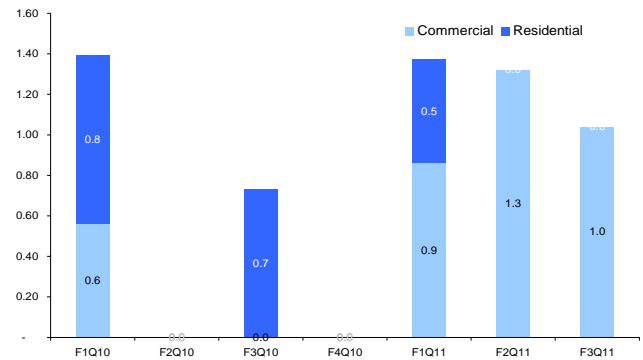
Source: Company data, Morgan Stanley Research

Exhibit 6
DLF: New Additions / Construction Starts (msf)



Source: Company data, Morgan Stanley Research

Exhibit 7
DLF: Developments Handed Over (msf)



Source: Company data, Morgan Stanley Research

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DLF Limited

Exhibit 8

DLF: Q3-11 Earnings

| Rs Mn | F3Q11 | F3Q10 | Chg | F2Q11 | Chg |
|--|------------------|------------------|--------------|------------------|--------------|
| <i>Period ending</i> | <i>31-Dec-10</i> | <i>31-Dec-09</i> | <i>yoy</i> | <i>30-Sep-10</i> | <i>qoq</i> |
| INCOME | | | | | |
| Sales and other receipts | 24,799 | 20,258 | 22.4% | 23,690 | 4.7% |
| EXPENDITURE | | | | | |
| Cost of land, plots and constructed properties | 7,636 | 6,733 | 13.4% | 8,080 | -5.5% |
| Cost of Revenue - other | 1,891 | 1,226 | 54.2% | 2,062 | -8.3% |
| Staff Cost | 1,338 | 1,289 | 3.8% | 1,622 | -17.5% |
| Other Expenditure | 2,156 | 2,577 | -16.3% | 2,638 | -18.3% |
| Total | 13,020 | 11,825 | 10.1% | 14,401 | -9.6% |
| Operating Income | 11,780 | 8,433 | 39.7% | 9,289 | 26.8% |
| Other Income | 1,143 | 1,260 | -9.3% | 1,509 | -24.2% |
| Finance Charges | 4,277 | 2,568 | 66.5% | 4,338 | -1.4% |
| Depreciation | 1,612 | 800 | 101.6% | 1,540 | 4.7% |
| PBT | 7,034 | 6,325 | 11.2% | 4,920 | 42.9% |
| Total Taxes | 2,026 | 1,684 | 20.3% | 734 | 176.0% |
| Profit before Minority Interest | 5,008 | 4,641 | 7.9% | 4,186 | 19.6% |
| Minority Interest | 284 | (29) | NM | 69 | 310.5% |
| Profit/ (Loss) Assoc | (2) | (40) | NM | (1) | NM |
| Net Profit | 4,722 | 4,630 | 2.0% | 4,117 | 14.7% |
| <i>GPM (%)</i> | <i>61.6</i> | <i>60.7</i> | <i>0.9</i> | <i>57.2</i> | <i>4.4</i> |
| <i>OPM (%)</i> | <i>47.5</i> | <i>41.6</i> | <i>5.9</i> | <i>39.2</i> | <i>8.3</i> |
| <i>NPM (%)</i> | <i>19.0</i> | <i>22.9</i> | <i>-3.8</i> | <i>17.4</i> | <i>1.7</i> |
| <i>Effective Tax Rate (%)</i> | <i>28.8</i> | <i>26.6</i> | <i>2.2</i> | <i>14.9</i> | <i>13.9</i> |

Source: Company data, Morgan Stanley Research

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DLF Limited

Exhibit 9

DLF: Balance Sheet Progression

| Rs Mn | F3Q09 | F4Q09 | F1Q10 | F2Q10 | F3Q10 | F4Q10 | F1Q11 | F2Q11 | F3Q11 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Period ending | Dec-08 | Mar-09 | Jun-09 | Sep-09 | Dec-09 | Mar-10 | Jun-10 | Sep-10 | Dec-10 |
| Shareholders' funds | | | | | | | | | |
| Capital | 17,370 | 17,350 | 17,350 | 17,350 | 17,350 | 62,590 | 33,610 | 24,230 | 21,500 |
| Reserves & Surplus | 230,150 | 224,190 | 228,040 | 232,690 | 237,640 | 245,130 | 237,360 | 242,320 | 244,060 |
| Minority Interests | 4,820 | 6,340 | 6,060 | 6,290 | 6,300 | 6,290 | 6,530 | 6,020 | 6,420 |
| Loan Funds | 155,250 | 163,200 | 147,750 | 147,290 | 171,680 | 216,770 | 233,740 | 232,380 | 236,110 |
| Deferred tax liabilities (net) | (580) | (410) | (340) | (790) | (800) | 2,620 | 2,970 | (770) | (820) |
| Liabilities | 407,010 | 410,670 | 398,860 | 402,830 | 432,170 | 533,400 | 514,210 | 504,190 | 507,270 |
| Fixed assets | | | | | | | | | |
| Gross block | 69,470 | 84,870 | 85,610 | 87,010 | 94,660 | 178,740 | 181,970 | 185,020 | 188,660 |
| Less: Depreciation | 5,550 | 5,740 | 6,440 | 7,260 | 8,940 | 13,260 | 14,720 | 16,300 | 17,960 |
| Net Block | 63,920 | 79,130 | 79,180 | 79,750 | 85,720 | 165,480 | 167,250 | 168,720 | 170,700 |
| Capital Work in Progress | 72,680 | 56,880 | 58,510 | 63,740 | 57,820 | 111,820 | 110,790 | 93,510 | 92,760 |
| Investments | 15,480 | 14,020 | 21,380 | 15,420 | 29,750 | 55,200 | 30,060 | 16,820 | 13,110 |
| Goodwill on consolidation | 21,920 | 22,650 | 22,080 | 20,180 | 20,070 | 12,670 | 12,580 | 12,770 | 13,730 |
| Current assets, loans and advances | 310,350 | 316,230 | 289,220 | 292,050 | 309,390 | 280,740 | 279,640 | 301,530 | 305,810 |
| Stocks | 106,980 | 109,280 | 112,960 | 113,920 | 115,500 | 124,120 | 130,960 | 143,970 | 147,850 |
| Sundry Debtors | 101,900 | 21,650 | 18,210 | 15,670 | 19,830 | 16,660 | 14,390 | 19,180 | 19,460 |
| Cash and bank balances | 6,970 | 11,960 | 7,170 | 6,340 | 8,140 | 9,130 | 12,970 | 15,560 | 11,780 |
| Other current assets | 860 | 76,220 | 64,950 | 73,060 | 82,630 | 44,830 | 47,680 | 47,340 | 49,720 |
| Loans and advances | 93,640 | 97,120 | 85,930 | 83,060 | 83,290 | 86,000 | 73,640 | 75,480 | 77,000 |
| Current liabilities and provisions | 77,340 | 78,240 | 71,500 | 68,310 | 70,580 | 92,510 | 86,110 | 89,140 | 88,840 |
| Liabilities | 43,700 | 41,400 | 35,570 | 30,080 | 34,290 | 54,660 | 50,590 | 51,620 | 53,020 |
| Provisions | 33,640 | 36,840 | 35,930 | 38,230 | 36,290 | 37,850 | 35,520 | 37,520 | 35,820 |
| Net current assets | 233,010 | 237,990 | 217,720 | 223,740 | 238,810 | 188,230 | 193,530 | 212,390 | 216,970 |
| Assets | 407,010 | 410,670 | 398,860 | 402,830 | 432,170 | 533,400 | 514,210 | 504,190 | 507,270 |

Source: Company data, Morgan Stanley Research

Valuations and Price Target

The stock is trading at a 31% discount to our March 2012 estimate of net asset value (NAV) of Rs319... That is broadly in line with industry average valuation. It is also trading at P/E's of 18x F2012E and 15x F2013E EPS.

...to which we apply a 10% discount to derive our price target of Rs287 per share: Our previous price target of Rs359 was derived using our March 2011E NAV of Rs359 at par). Please see Exhibit 13 and Exhibit 14 (NAV calculation methodology).

We argue for a 10% discount (to NAV) valuation for DLF (versus par earlier): We weigh the following positives...

- 1) The company benefits from a premium brand and investment scarcity (i.e., limited real estate plays in the Indian equity market with significant liquidity).
- 2) DLF has significant asset build-up on its balance sheet, including 20msf of rent-yielding assets (in which DLF's share is 60%) plus another six to seven near-complete investment properties, which give high visibility of stable rental income

...versus these negatives:

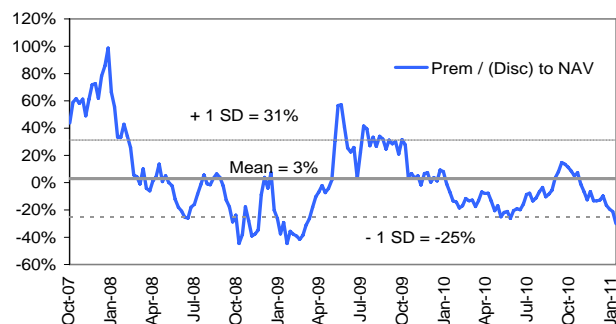
- 3) DLF's balance sheet appears stretched with Rs207bn net debt (December 2010), implying 79% net gearing. In our view, given management's efforts to reduce gearing, this will restrict re-investment upside for the next 2-3 years.
- 4) Poor new launch performance (and pre-sales) in F9M11 (6.5 msf pre-sold vs. F11 target of 12-15msf) when the physical market was showing good strength and absorption.

Changes from earlier PT calculations: We arrive at our new March 2012 NAV estimate of Rs319 (Rs359 for F11 earlier) by updating our model for the following:

- 1) Sharp cut in execution volumes (25% average for F11-13; 20% for F11-17). Our new assumption is 21msf (including both development and rental projects) average for the next 14 years.
- 2) 100 bps lower cap rate to 12%,
- 3) Project detail updates (pricing and timelines) and
- 4) Rolling forward our NAV by one year to F12.

Exhibit 10

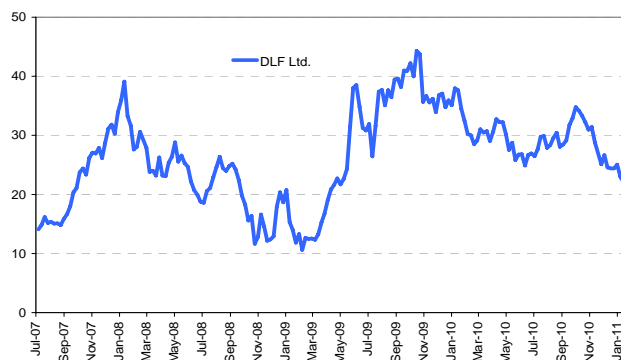
DLF: Rolling Premium / Discount to NAV



Source: Factset, Morgan Stanley Research

Exhibit 11

DLF: Rolling P/E



Source: Factset, Morgan Stanley Research

Exhibit 12

DLF: Rolling P/B



Source: Factset, Morgan Stanley Research

To this, we apply 10% discount (versus par earlier), to recognize slower than expected de-leveraging which restricts DLF's ability to increase its NAV.

Exhibit 13

DLF: Price Target

| Price Target Calculation | New (Rs) | Old (Rs) |
|-------------------------------|------------|------------|
| | Mar'12 | Mar'11 |
| NAV, Rs/share | 319 | 359 |
| Discount (%) | 10 | 0 |
| Price Target, Rs/share | 287 | 359 |

Source: Company data, Morgan Stanley Research

NAV Calculations (Exhibit 14)

Post-tax discounted cash flows

- Market value (discounted sales) estimation:** First, we developed an execution schedule for each land parcel based on our estimate of market demand. Then we arrived at the sales realization based on our estimate of DLF's selling price (the current market price or a slight discount). We then discount this back to F12 to arrive at the market value. We have assumed 5% price and cost inflation p.a. thereafter for the development period.
- For investment properties,** we have assumed cap rates of 9% for IT/ITES SEZs and 12% (13% earlier) for non-SEZ commercial and retail to arrive at a market value (i.e., asset sale assumed). We have compressed cap rates for non SEZ properties by 100 bps in view of the recovery in the physical market and current market trend.
- (Discounted) construction cost:** We estimate the construction cost for each project based on the current market rates. We then discount this back to F12 to arrive at the construction cost.

Less pending land cost: We net out the pending land cost due after F2012, since the land cost paid through March 2012 is captured in the market value/net debt.

Less overhead and tax: This is adjusted for the overhead (at 7% of sales) and tax (at approximately 25%) for each year for the duration of the land bank development. These numbers are discounted back to March 2012.

Balance sheet adjustments: In the end, we have made adjustments for the balance sheet items. This primarily reflects the value of the finished and under-construction investment

properties and net adjusted receivables. Finally, we subtract net debt to arrive at the net asset value.

Discount rate: Our discount rate of 14% is arrived at by using a 7% risk-free rate, a 5.5% equity risk premium, and a 1.3 beta.

Using this methodology, we arrive at our March 2012E NAV for DLF of Rs544bn (US\$12bn), which translates into NAV of Rs319 per share (Exhibit 14).

Exhibit 14

DLF: NAV Computation

| NAV Calculation | New (Rs mn) | Old (Rs mn) |
|---------------------------|----------------|----------------|
| | Mar'12 | Mar'11 |
| Market Value of Projects | 1,021,172 | 1,144,891 |
| Pending Construction Cost | 332,654 | 396,612 |
| Pending Land cost | 7,725 | 8,907 |
| Net Market Value | 680,793 | 739,371 |
| Less O/h @7% of sales | 71,482 | 74,532 |
| Tax | 154,259 | 162,667 |
| Less Net Debt | 180,053 | 158,541 |
| Balance Sheet Adjustment | 268,918 | 268,302 |
| NAV, Rs mln | 543,917 | 611,933 |
| NAV per share, Rs | 319 | 359 |

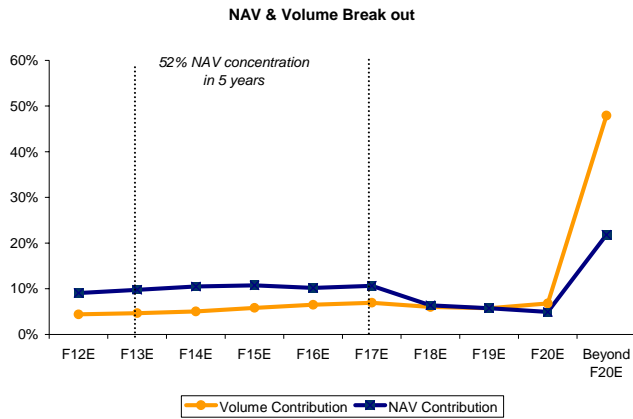
Source: Company data, Morgan Stanley Research

Key Downside Risks to Our Overweight Rating

- 1) Adverse macro environment including lower GDP growth, high and persistent inflation, interest rate upcycle and waning risk appetite,
- 2) Lower than expected new launches by DLF and/or high pricing inconsistent with the affordability
- 3) Sluggish demand in the physical property market;
- 4) Slower pre-leasing in rental projects;
- 5) Shortfall in company's non-core asset sales target; and
- 6) Oversupply in key markets of Mumbai and Gurgaon.

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Exhibit 15
DLF: NAV / Volume Break-out



Source: Company data, Morgan Stanley Research

Exhibit 16
DLF: NAV Sensitivity to Price Inflation / Disc Rate

| | -10% | -5% | 0% | 5% | 10% |
|-----|------|------|------|-----|-----|
| 12% | -6% | 3% | 11% | 20% | 29% |
| 13% | -11% | -3% | 5% | 14% | 22% |
| 14% | -15% | -8% | 0% | 8% | 15% |
| 15% | -20% | -12% | -5% | 2% | 10% |
| 16% | -23% | -17% | -10% | -3% | 4% |

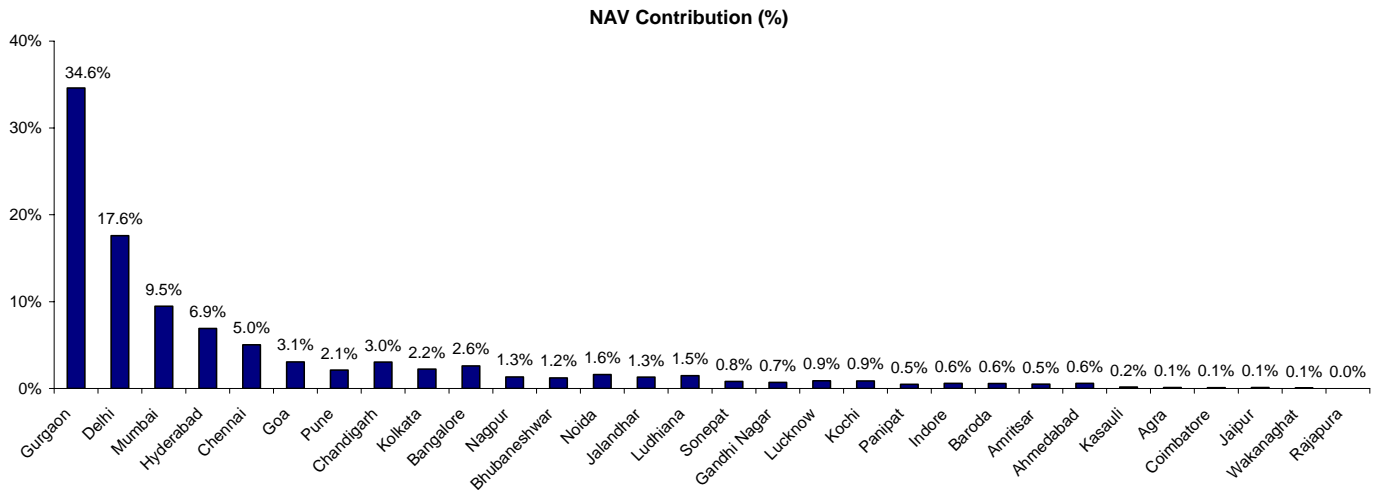
Source: Company data, Morgan Stanley Research

Exhibit 17
DLF: NAV Sensitivity to Cost Inflation / Disc Rate

| | -10% | -5% | 0% | 5% | 10% |
|-----|------|-----|------|------|------|
| 12% | 18% | 14% | 11% | 8% | 5% |
| 13% | 11% | 8% | 5% | 3% | 0% |
| 14% | 5% | 3% | 0% | -3% | -5% |
| 15% | 0% | -2% | -5% | -8% | -10% |
| 16% | -5% | -7% | -10% | -12% | -14% |

Source: Company data, Morgan Stanley Research

Exhibit 18
DLF: NAV Contribution by Geography



Source: Company data, Morgan Stanley Research

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Exhibit 19

Real Estate Valuation Parameters: Indian Companies

| Prices as of Feb 01, 2011 | Price | Mkt Cap | EPS | | | P/E | | | P/BV | | | Fwd | % (Dis)/Prem |
|-------------------------------|--------------|--------------|--------|--------|--------|-------------|-------------|-------------|------------|------------|------------|---------|--------------|
| India Companies | (Rs) | (Rs. mn.) | F2010E | F2011E | F2012E | F2010E | F2011E | F2012E | F2010E | F2011E | F2012E | NAV/Shr | NAV |
| DLF# | 221 | 374,801 | 10.7 | 10.2 | 12.2 | 20.7 | 21.7 | 18.2 | 1.5 | 1.4 | 1.4 | 319 | -30.8% |
| Unitech# | 43 | 108,437 | 3.0 | 3.4 | 4.8 | 14.4 | 12.6 | 9.0 | 1.4 | 1.0 | 0.9 | ^^ | ^^ |
| Indiabulls Real Estate Ltd. # | 116 | 46,628 | (0.4) | 2.7 | 7.9 | | 43.8 | 14.7 | 0.5 | 0.5 | 0.5 | 250 | -53.6% |
| Jaypee Infratech Ltd # | 64 | 88,197 | 4.0 | 7.0 | 6.8 | 16.0 | 9.0 | 9.3 | 1.9 | 1.6 | 1.3 | 106 | -40.1% |
| DB Realty Ltd. | 153 | 37,182 | 11.8 | 16.7 | 38.9 | 13.0 | 9.1 | 3.9 | 0.2 | 1.1 | 0.8 | | |
| Sobha Developers Ltd.# | 257 | 25,153 | 13.9 | 17.1 | 21.0 | 18.4 | 15.0 | 12.2 | 1.5 | 1.4 | 1.3 | 445 | -42.4% |
| Oberoi Realty Ltd.# | 245 | 80,434 | 15.9 | 15.5 | 17.3 | 15.5 | 15.8 | 14.2 | 3.9 | 2.4 | 2.1 | 337 | -27.3% |
| HDIL | 125 | 52,042 | 17.3 | 22.4 | 29.8 | 7.2 | 5.6 | 4.2 | 0.8 | 0.5 | 0.5 | | |
| Puravankara Projects Ltd. | 105 | 22,410 | 6.8 | 6.9 | 8.8 | 15.4 | 15.2 | 11.9 | 1.6 | 1.3 | 1.3 | | |
| Mahindra Lifespace Developers | 317 | 12,944 | 18.9 | 25.5 | | 16.7 | 12.4 | | 1.4 | 1.2 | | | |
| Ansar Properties | 41 | 4,993 | 5.5 | 7.3 | | 7.4 | 5.6 | | 0.4 | 0.4 | | | |
| Godrej Properties Ltd. | 556 | 38,812 | 19.5 | 17.3 | 29.7 | 28.5 | 32.2 | 18.7 | 11.2 | 4.2 | 2.5 | | |
| AIM Listed companies | (GBP) | (£mn) | | | | | | | | | | | |
| Unitech Corporate Parks* | 28 | 101 | | | | | | | | | | ^^ | ^^ |
| Hirco PLC* | 71 | 54 | | | | | | | | | | | |
| Ishaan* | 64 | 93 | | | | | | | | | | | |
| Weighted Average | | | | | | 16.5 | 18.0 | 13.2 | 2.0 | 1.5 | 1.2 | | |

Source: Company data, Morgan Stanley Research; *Prices in Pence as on Feb 01, 2011, Mkt cap in £mn,

; # = Morgan Stanley Research estimates; all others are FactSet Consensus; E= estimates,

** DLF NAV is for Mar-12; Sobha, IBREL, JIL and OBER NAV are for Mar '11;

^^ = Stock Rating, Price Target or Estimates are not available or have been removed due to applicable law and/or Morgan Stanley policy.

Exhibit 20

Real Estate Valuation Parameters: Regional Companies

| 1/28/2011 | Share | Mkt Cap | P/E | | P/B | | RoE | | Net D/E | Int. Cov | NAV/ | Disc to | Fwd | Disc to |
|------------------------------|--------|---------|-------------|-------------|------------|------------|-------|-------|---------|----------|-------|---------|--------|---------|
| Company | Price | US\$M | 2010E | 2011E | 2010E | 2011E | 2010E | 2011E | 2010 | 2010 | share | NAV | NAV | NAV |
| China Property Stocks | | | | | | | | | | | | | | |
| China Vanke | 8.18 | 13,624 | 12.2 | 8.4 | 2.1 | 1.7 | 20% | 24% | 0.1 | 12.7 | 12.0 | -32% | 10.1 | -19% |
| COLI. | 14.68 | 15,390 | 13.5 | 10.9 | 2.4 | 2.1 | 21% | 22% | 0.2 | 31.1 | - | | NA | |
| Country Garden | 3.11 | 6,526 | 13.4 | 11.8 | 1.8 | 1.7 | 15% | 16% | 0.5 | 5.7 | 4.3 | -28% | 3.9 | -20% |
| Guangzhou R&F | 11.50 | 4,753 | 8.1 | 6.9 | 1.6 | 1.4 | 22% | 23% | 0.9 | 8.2 | 23.6 | -51% | 18.4 | -38% |
| China Resources Land | 13.92 | 8,994 | 16.8 | 13.7 | 1.8 | 1.6 | 11% | 13% | 0.5 | 15.9 | - | | NA | |
| Agile Property | 11.44 | 5,496 | 10.7 | 8.6 | 2.2 | 1.8 | 23% | 25% | 0.7 | 42.7 | 19.8 | -42% | 17.5 | -35% |
| Shanghai Forte Land | 3.40 | 1,103 | 5.0 | 5.9 | 0.7 | 0.9 | 18% | 17% | 1.1 | 27.5 | 7.0 | -51% | 5.1 | -33% |
| China Aoyuan | 1.45 | 512 | 14.3 | 9.5 | 0.6 | 0.5 | 4% | 6% | 0.4 | 14.9 | 4.7 | -69% | 4.2 | -65% |
| Weighted Average | | | 12.8 | 10.2 | 2.0 | 1.7 | | | | | | | | |
| HK Property Stocks | | | | | | | | | | | | | | |
| SHK Properties | 129.60 | 42,628 | 19.8 | 19.0 | 1.1 | 1.3 | 6% | 7% | 0.1 | 31.0 | 134.4 | -4% | 141.74 | -9% |
| Hang Lung Properties Ltd. | 34.25 | 19,630 | 18.7 | 34.4 | 1.4 | 1.5 | 10% | 5% | (0.1) | 305.7 | 25.2 | 36% | 26.2 | 31% |
| Sino Land | 14.78 | 9,178 | 19.6 | 24.8 | 1.1 | 1.1 | 6% | 4% | 0.2 | 216.2 | 18.5 | -20% | 20.6 | -28% |
| Great Eagle Holdings | 25.85 | 1,982 | 14.0 | 14.4 | 0.6 | 0.7 | 5% | 5% | (0.4) | 6.3 | 33.0 | -22% | 34.7 | -26% |
| Weighted Average | | | 19.4 | 23.7 | 1.2 | 1.3 | | | | | | | | |

Source: Company data, Morgan Stanley Research E = Morgan Stanley Research estimates



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| Total | 2,906 | | 1028 | | |

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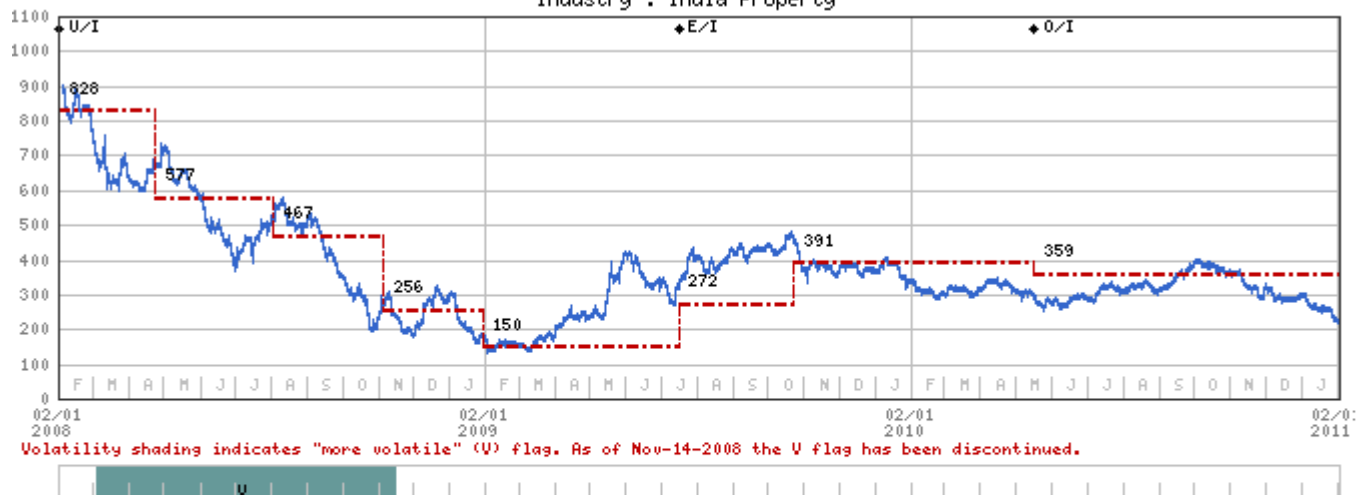
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DLF Limited (DLF.BO) - As of 2/1/11 in INR
Industry : India Property



Stock Rating History: 2/1/08 : U/I; 7/16/09 : E/I; 5/17/10 : O/I

Price Target History: 10/17/07 : 828; 4/24/08 : 577; 8/3/08 : 467; 11/5/08 : 256; 1/29/09 : 150; 7/16/09 : 272; 10/23/09 : 391; 5/17/10 : 359

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
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February 2, 2011

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February 2, 2011

DLF Limited

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Industry Coverage: India Property

| Company (Ticker) | Rating (as of) | Price* (02/01/2011) |
|--|-----------------|---------------------|
| Sameer Baisiwala, CFA | | |
| DLF Limited (DLF.BO) | O (05/17/2010) | Rs220.8 |
| Indiabulls Real Estate Limited (INRL.BO) | O- (07/01/2010) | Rs116.05 |
| Jaypee Infratech Limited (JYPE.BO) | E- (07/01/2010) | Rs63.5 |
| Oberoi Realty Limited (OEBO.BO) | O- (11/25/2010) | Rs245.05 |
| Sobha Developers Ltd. (SOBH.BO) | O (05/25/2010) | Rs256.5 |
| Unitech Corporate Parks Plc (UCP.L) | ++ | 28p |
| Unitech Limited (UNTE.BO) | ++ | Rs43.05 |

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.