

DLF sells Pune IT SEZ; Maintain Buy

Quick Note

December 29, 2011

Rating
 Remains **Buy**
Target price
 Remains **INR 270**
Closing price
 December 28, 2011 **INR 193**

Event

As per an *Economic Times* news article dated 29 December 11, DLF (Buy, PT INR 270 per share) and Hubtown (Not rated) have sold Pune IT SEZ to Blackstone for INR 8.1bn.

Impact / Analysis

Based on DLF's 67% stake in the IT SEZ, the sale will provide a pre-tax cash inflow of INR 5.4bn. The IT SEZ in Hinjewadi is spread over an area of 5m sq. ft. with 1.8m sq. ft. currently operational with tenants such as Cognizant, TCS, and Barclays, among others. Although the sale price of INR 8.1bn achieved for the asset was below our expectation of INR 12.8bn, we view this development as positive, as it is the largest asset sale achieved by DLF so far after it decided to sell its non-core assets to reduce its debt.

Earlier this month, DLF sold its 100% stake in DLF Hotels & Hospitality, expected to give company a net cash inflow of INR 4.3bn. In addition to this, the company also received the first tranche of c.INR 2.0bn for its ~71% stake sale in 1.3mn sq ft IT Park in Noida. Based on our estimates, from the sale of a total of five assets (over the past two quarters), DLF will receive total pre-tax cash inflow of c.INR 20bn that will help net debt reduction by around 6-7% from its current c.INR 255bn level by 4QFY12. With the company close to appointing a property consultant for the sale of Lower Parel land in Mumbai and also targeting to achieve the sale of Aman Resort by 4QFY12, monetization of either of these assets would be a key positive catalyst for the stock, in our view. We remain confident in management's ability to sell non-core assets and improve the company's balance sheet. We maintain our Buy recommendation on the stock, as it is currently trading at a ~29% discount to our NAV of INR 270 per share.

Fig. 1: Snapshot of asset sale

Asset	City	Expected cash inflow (INR bn)	Buyer	Status
28-acre plot	Gurgaon	4.4	MBM	Completed
Plot	Gurgaon	1.8	Private	Completed
IT Park	Noida	4.2	IDFC	Completed
IT/ITeS SEZ Park	Pune	5.4	Blackstone	Completed
DLF Hotels & Hospitality	Varous cities	4.3	Square Four Housing & Infrastructure	Expected completion in 4QFY12
Aman resorts	-	21.4	5 bids	Under negotiation, 4 bids received
Lower Parel Land	Mumbai	25.0		Initial discussion for appointment of property consultant
Total (INR bn)		66		

Source: Economic Times, Nomura estimates

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Appendix A-1

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Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
DLF	DLFU IN	INR 193	28-12-2011	Buy	Not rated	49

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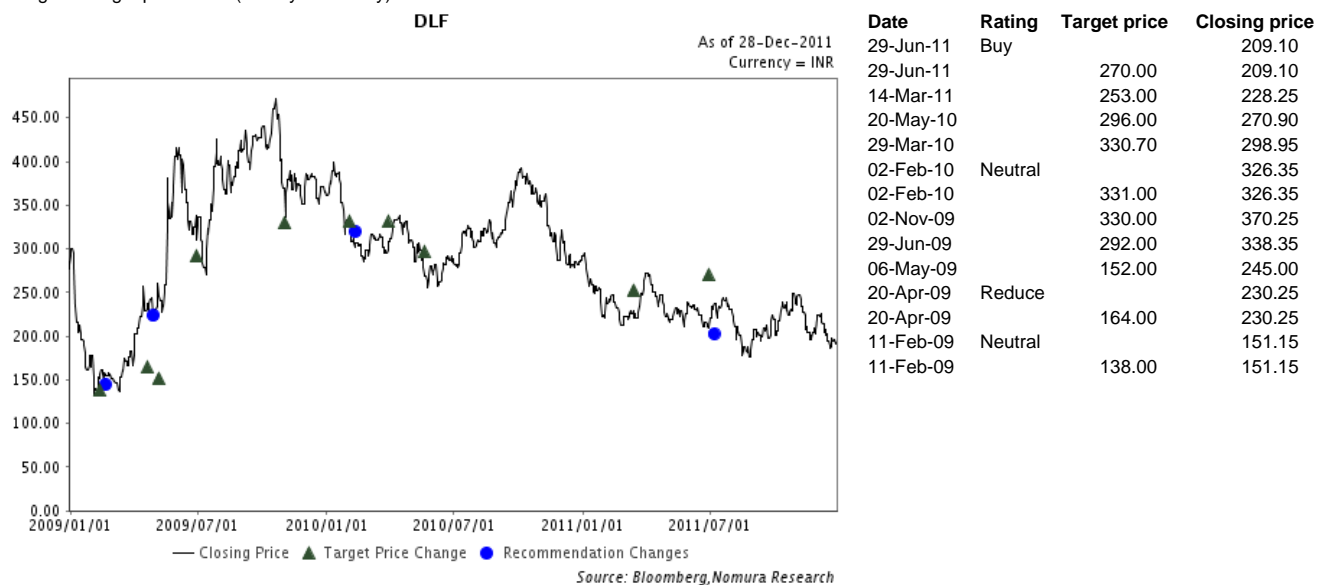
Previous Rating

Issuer name	Previous Rating	Date of change
DLF	Neutral	29-6-2011

DLF (DLFU IN)

INR 193 (28-12-2011) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value DLF Ltd using a net asset value (NAV) methodology, which is a DCF valuation of the development potential of the company's land reserves and developed property. We do not offer any premium or discount to this NAV to arrive at our target price. Our target price of INR270 per share is based on INR219 for the land bank NAV, INR29 for non-core assets and land and INR21 for its 57% stake in DLF Cyber City Developers Ltd(DCCDL).

Risks that may impede the achievement of the target price Downside risks include: 1) further rapid increases in interest rates; 2) below-expectation growth in the economy; 3) execution lagging expectations; 4) a credit-crunch like environment resulting in developers being unable to refinance their debt; 5) equity dilution to repay debt and 6) inability to sell non-core assets.

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STOCKS

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 STOCKS

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