 **REDUCE**
FROM HOLD

TARGET INR195.00
PRIOR TP INR228.00
CLOSE INR238.50
UP/DOWNSIDE -18.2%

HOW WE DIFFER FROM THE STREET

	BNPP	Consensus	% Diff
Target Price (INR)	195.00	246.00	(25.2)
EPS 2012 (INR)	10.29	10.48	(0.5)
EPS 2013 (INR)	12.57	12.57	2.7
	Positive	Neutral	Negative
Market Recs	20	13	11

INDUSTRY OUTLOOK ↔

More downside than upside

 **CHANGE**
Downgrade to REDUCE

We downgrade DLF to REDUCE, from Hold. Key reasons for the downgrade are: 1) projected asset sales are unlikely to generate significant value and would just meet DLF's cash requirement; 2) high dilution risk persists; 3) 2QFY12 operational metrics should remain weak; and 4) an unfavourable judgement on the CCI penalty could further strain cash flows.

 **CATALYST**
FY12 Cash flows, debt levels and operational data are important

Key catalysts for DLF over the next six months are

- Lower-than-expected asset sales could lead to higher cash flows
- Debt levels – cash flows from asset sales should result in lower debt levels if not than it would be viewed as a negative
- Current slow launch momentum could impact FY13/14 revenue

 **VALUATION**
Our TP of INR195 is based on average of justified P/BV and NAV

Our TP of INR195 is based on the average of fair value's derived from justified P/BV multiples and discounted cash flow based net asset value (NAV). Our TP implies 18% downside from current levels. Key risks to our rating include asset sales of more than INR55b over the next 18 months and significant up-tick in plotted development in the next 12 months.

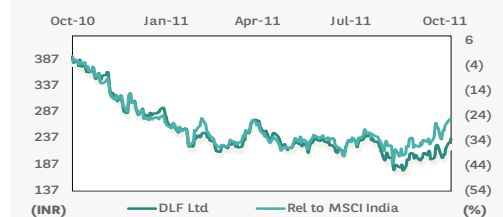
 **KEY CHART**
Asset sales in the past three months

Particular	Buyer	Area	Realisation (INR m)
Gurgaon land sale	HNI	10.8 acres	2,800
Gurgaon land sale	M3M	27.4 acres	4,400
Noida IT Park	IDFC	1.3m sqft	5,120
DLF Pune SEZ asset sale	Blackstone	25 acres	6,300
Total			18,620

Sources: Media reports; BNP Paribas

KEY STOCK DATA

YE Mar (INR m)	2012E	2013E	2014E
Revenue	99,915	105,280	124,342
Rec. net profit	17,463	21,340	29,042
Recurring EPS (INR)	10.29	12.57	17.11
Prior rec. EPS (INR)	10.40	13.76	18.61
Chg. In EPS est. (%)	(1.1)	(8.6)	(8.0)
EPS growth (%)	6.5	22.2	36.1
Recurring P/E (x)	23.2	19.0	13.9
Dividend yield (%)	0.3	0.4	0.5
EV/EBITDA (x)	11.8	11.6	9.7
Price/book (x)	1.4	1.4	1.2
Net debt/Equity (%)	75.9	64.9	58.0
ROE (%)	6.4	7.4	9.3



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	19.5	5.0	(38.3)
Relative to country (%)	16.3	14.0	(18.0)
Next results	October 2011		
Mkt cap (USD m)	8,268		
3m avg daily turnover (USD m)	35.7		
Free float (%)	21		
Major shareholder	Promoters (79%)		
12m high/low (INR)	386.70/176.10		
3m historic vol. (%)	51.3		
ADR ticker	-		
ADR closing price (USD)	-		
Issued shares (m)	1,697		

Sources: Bloomberg consensus; BNP Paribas estimates



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RISK EXPERTS

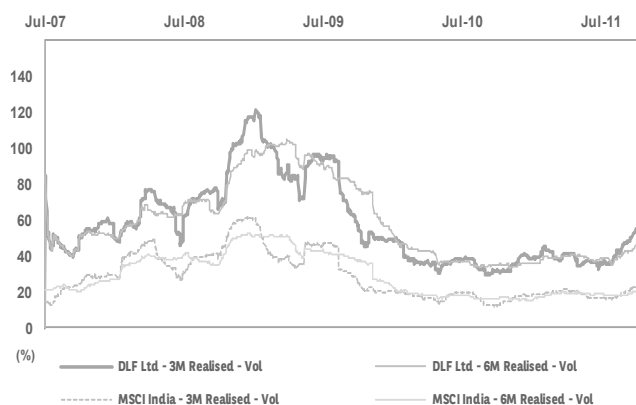
Key Earnings Drivers & Sensitivity

- We estimate a 2% change in the cap rate would impact DLF's NAV by 9%

Cap rate (%)	WACC				
	262	13%	14%	15%	16%
9%	329	311	295	280	265
11%	294	277	262	247	234
13%	269	253	239	225	212

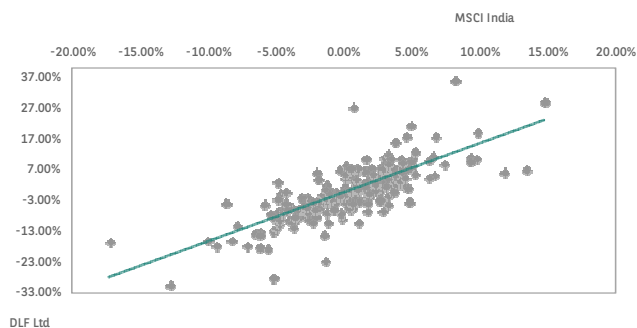
Source: BNP Paribas estimates

DLF Ltd and MXIN Index (3M and 6M Realised-Vol)



Sources: Bloomberg; BNP Paribas

Regression – DLF Ltd to MXIN Index



DLF Ltd = -171 + 0.9114 * MXIN Index
 R Square = 0.6
 Regression based on 223 observations of 5 years weekly data. Please refer to Appendix 1 for the explanation of R-square
 Sources: Bloomberg; BNP Paribas

India Sector Correlation Matrix at 25 July 2011

	Autos	Banks	Engineering & Construction	Metals & Mining	Oil & Gas	IT Services	Telecom	Utilities	Property
Autos	1.00	0.67	0.64	0.66	0.50	0.43	0.36	0.58	0.62
Banks		1.00	0.71	0.70	0.58	0.46	0.36	0.63	0.66
Engineering & Construction			1.00	0.71	0.58	0.46	0.41	0.65	0.68
Metals & Mining				1.00	0.66	0.50	0.40	0.69	0.72
Oil & Gas					1.00	0.40	0.30	0.57	0.57
IT Services						1.00	0.27	0.45	0.38
Telecom							1.00	0.43	0.43
Utilities								1.00	0.63
Property									1.00

Source: BNPP Paribas Sector Strategy

The Risk Experts

- Our starting point for this page is a recognition of the macro factors that can have a significant impact on stock-price performance, sometimes independently of bottom-up factors.
- With our Risk Expert page, we identify the key macro risks that can impact stock performance.
- This analysis enhances the fundamental work laid out in the rest of this report, giving investors yet another resource to use in their decision-making process

Long/Short Chart



Sources: Bloomberg; BNP Paribas

Sources: Bloomberg, BNPP Paribas

Asset sale is likely to meet funding shortfall at best; no incremental value add

We believe DLF needs to achieve an asset sales target of at-least INR55b over the next 18 months for it to be able to meet its cash outflows. Media reports indicate that DLF has achieved asset sales totalling about INR18.6b so far, however the current quantum of asset sales is insufficient, in our view and needs to achieve an asset sales target of additional INR36b over the next 18 months if it is to break even on cash flows, in our estimation.

We do not expect any significant value accretion from the asset sales. For the INR18.6b asset sale DLF has completed, we estimate incremental value add (actual realisation – our estimate in NAV calculation) is only INR2 per share.

EXHIBIT 1: Asset sales in the past three months

Particular	Buyer	Area	Realisation (INR m)
Gurgaon land sale	HNI	10.8 acres	2,800
Gurgaon land sale	M3M	27.4 acres	4,400
Noida IT Park	IDF	1.31m sqft	5,120
DLF Pune SEZ asset sale	Blackstone	25 acres	6,300
Total			18,620

Sources: Media reports; BNP Paribas

EXHIBIT 2: Projected cash flows over the next two years

Particulars	FY12E (INR m)	FY13E (INR m)
Debt repayment	27,000	30,000
Interest payment	25,691	22,271
Capex	10,000	10,000
Total cash outflow	62,691	62,271
Cash Inflow		
Asset sales	20,000	25,000
CFO	32,325	37,137
Net flow	(10,365)	(134)

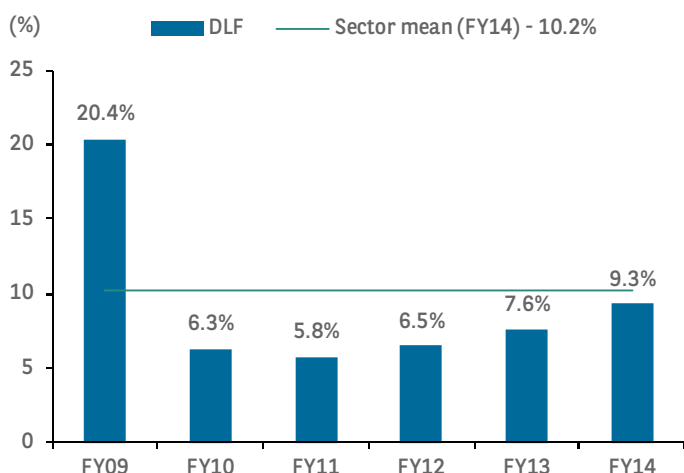
Sources: DLF Ltd; BNP Paribas estimates

Dilution risk continues to remain high; promoter has CCPS in DAL which can be converted anytime

Our discussions with company management indicate that about INR57b of debt is could be due for repayment in FY13-14. We do not think current cash flows are sufficient to meet its debt and Interest repayment obligations. If DLF is unable to achieve its asset sales target of INR60b over the next two years – it will have to opt for the equity dilution route: equity dilution is likely to further depress it already subdued RoEs.

Further, DLF promoters have cumulative convertible preference shares (CCPS) in DCCDL (DLF subsidiary which has about 17.5m sq ft of leased area). Conversion of their stake at current prices could lead to a 9% dilution at the entity level which will further dilute RoEs for the company

EXHIBIT 3: ROE's likely to remain depressed over the near term



Sources: DLF Ltd; BNP Paribas estimates

EXHIBIT 4: DLF has one of the lowest ROE in the coverage universe

Company	FY12E (%)	FY13E (%)	FY14E (%)
ARCP	4.8	6.1	8.0
DLFU	6.5	7.6	9.3
HDIL	12.0	12.0	12.0
IBREL	5.5	4.2	3.8
OBER	14.2	21.3	24.6
PEPL	9.0	8.0	8.0
Sobha	9.0	10.0	12.0
UT	4.0	4.0	5.0
Average	8.3	9.1	10.2

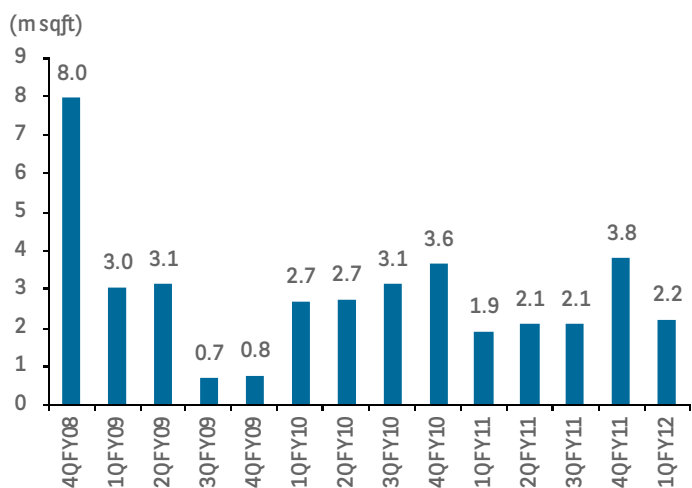
Sources: DLF Ltd; Companies; BNP Paribas estimates

Near-term operational matrix is likely to be weak – 2Q volume and leasing is likely to be muted

We expect near term volumes from its development and leasing business to remain weak. Unlike last quarter where it launched plotted development, DLF has not launched any significant new project in 2QFY12 and we believe volume is likely to disappoint. Further, our checks with local IPCs indicate that leasing off-take in 3Q12 in National Capital Region (NCR) has been weak. A lot of tenants are postponing

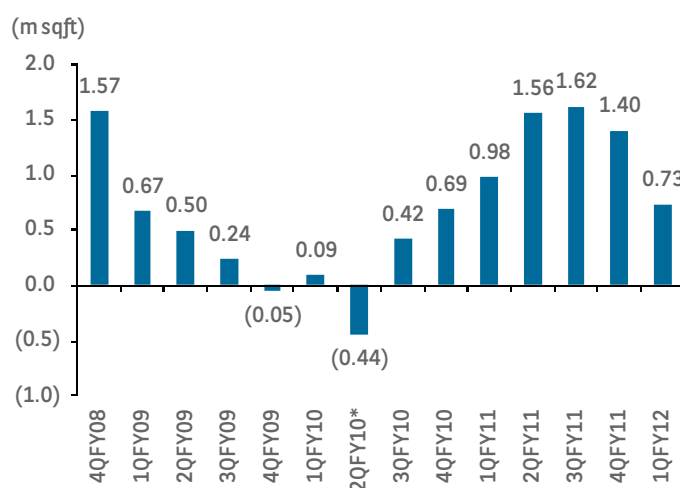
their decision to lease incremental space and are adjusting in existing premises. We do not expect any significant uptick in leasing in 2Q12.

EXHIBIT 5: Residential volumes likely to decline in 2Q



Sources: Company reports; BNP Paribas

EXHIBIT 6: Leasing to remain subdued



* Cancellations
Sources: Company reports; BNP Paribas

Current CCI verdict could potentially add further strain to cash flows

Competition Commission of India (CCI) recently imposed a penalty of INR6.3b on DLF for using its dominant position and imposing unfair conditions on buyers: DLF has filed an appeal with the competition Appellate Tribunal. We believe, in case the ruling goes against DLF, it is likely to further strain its operating cash flows and increase dilution risk

Downgrade to REDUCE, TP of INR195 based on average of justified P/BV and NAV

We downgrade DLF to REDUCE from Hold. Our TP of INR195 per share is based on the average of fair value's derived from justified P/BV multiples and discounted cash flow based net asset value (NAV). Our TP implies 18% downside potential from current levels.

We assume no growth in pricing over the next two years, an increase in costs by 5% and a cap rate of 11% for DLF to arrive at an NAV of INR262 per share

EXHIBIT 7: DCF-based NAV

Particulars	----- Net asset value -----	
	(INR m)	(INR/share)
Residential	204,668	121
Commercial	172,689	102
Retail	254,363	150
Hotels	11,777	7
Net Debt	(216,485)	(128)
Aman resorts	17,000	10
NAV	444,033	262

Sources: DLF Ltd; BNP Paribas estimates

EXHIBIT 8: Assumptions for NAV

NAV assumptions	
WACC (%)	15
Issued shares (m)	1,697
Tax rate (%)	25
Bookings (%)	100.0
Cap rate (for commercial/retail) (%)	11.0
Occupancy (%)	95
Property price growth (long-term) - Post FY13E (%)	5
Property price growth (near-term) - Till FY13E (%)	0

Sources: DLF Ltd; BNP Paribas estimates

To arrive at our justified P/BV, we use an average ROE for a period of seven years (FY07-14E), a cost of equity of 16% and a long term growth rate of 5%. Fair value for DLF based on the justified P/BV + value of its leased assets is INR129 per share.

EXHIBIT 9: Assumptions for justified P/BV

Justified P/BV assumptions	
ROE – average of FY08-14 (%)	11.6
Cost of equity (%)	16
Long term growth (%)	5
Justified P/BV multiple	0.6
Add: Value of leased assets (INR / Share) – (recognised at cost on the books)	22
Fair value based on justified P/BV multiple (INR)	129

Sources: DLF Ltd; BNP Paribas estimates

EXHIBIT 10: TP based on average of justified P/BV and NAV

Particulars	(INR/Share)
Fair value on DCF based NAV ^A	262
Fair value based on justified P/BV multiple ^B	129
Target price ^(Average of A & B)	195

Sources: DLF Ltd; BNP Paribas estimates

Financial statements

DLF Ltd

Profit and Loss (INR m) Year Ending Mar	2010A	2011A	2012E	2013E	2014E
Revenue	78,509	101,445	99,915	105,280	124,342
Cost of sales ex depreciation	(25,669)	(42,999)	(31,998)	(35,907)	(43,503)
Gross profit ex depreciation	52,840	58,446	67,916	69,373	80,839
Other operating income	0	0	0	0	0
Operating costs	(13,444)	(15,080)	(14,404)	(15,887)	(18,678)
Operating EBITDA	39,396	43,366	53,512	53,486	62,160
Depreciation	(3,249)	(6,307)	(6,395)	(6,451)	(6,506)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	36,147	37,059	47,117	47,034	55,655
Net financing costs	(11,100)	(17,056)	(19,522)	(16,740)	(15,585)
Associates	0	0	0	0	0
Recurring non operating income	0	0	0	0	0
Non recurring items	0	0	0	0	0
Profit before tax	25,046	20,003	27,595	30,294	40,070
Tax	(7,022)	(4,594)	(6,899)	(7,574)	(10,017)
Profit after tax	18,024	15,408	20,696	22,721	30,052
Minority interests	108	(72)	(3,233)	(1,381)	(1,011)
Preferred dividends	0	0	0	0	0
Other items	(933)	1,061	0	0	0
Reported net profit	17,198	16,397	17,463	21,340	29,042
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	17,198	16,397	17,463	21,340	29,042
Per share (INR)					
Recurring EPS *	10.13	9.66	10.29	12.57	17.11
Reported EPS	10.13	9.66	10.29	12.57	17.11
DPS	2.13	0.68	0.72	0.88	1.20
Growth					
Revenue (%)	(24.7)	29.2	(1.5)	5.4	18.1
Operating EBITDA (%)	(34.2)	10.1	23.4	(0.1)	16.2
Operating EBIT (%)	(37.1)	2.5	27.1	(0.2)	18.3
Recurring EPS (%)	(61.4)	(4.7)	6.5	22.2	36.1
Reported EPS (%)	(61.4)	(4.7)	6.5	22.2	36.1
Operating performance					
Gross margin inc depreciation (%)	63.2	51.4	61.6	59.8	59.8
Operating EBITDA margin (%)	50.2	42.7	53.6	50.8	50.0
Operating EBIT margin (%)	46.0	36.5	47.2	44.7	44.8
Net margin (%)	21.9	16.2	17.5	20.3	23.4
Effective tax rate (%)	28.0	23.0	25.0	25.0	25.0
Dividend payout on recurring profit (%)	21.0	7.0	7.0	7.0	7.0
Interest cover (x)	3.3	2.2	2.4	2.8	3.6
Inventory days	1,664.3	1,168.0	1,719.7	1,536.1	1,308.5
Debtor days	88.0	60.2	68.0	67.5	60.7
Creditor days	624.1	588.3	990.6	777.8	662.5
Operating ROIC (%)	5.4	5.0	6.2	6.1	7.1
Operating ROIC - WACC (%)	(7.8)	(8.3)	(7.1)	-	-
ROIC (%)	4.9	4.5	5.9	5.8	6.7
ROIC - WACC (%)	(8.4)	(8.7)	(7.4)	-	-
ROE (%)	6.3	5.8	6.4	7.4	9.3
ROA (%)	4.4	4.4	5.3	5.4	6.3

Rental Income to contribute about 16% of total revenue in FY13.

EBITDA margins at 50% due to plot sales.

*Pre exceptional, pre-goodwill and fully diluted

Sources: DLF Ltd; BNP Paribas estimates

DLF Ltd

Cash Flow (INR m) Year Ending Mar	2010A	2011A	2012E	2013E	2014E
Recurring net profit	17,198	16,397	17,463	21,340	29,042
Depreciation	3,249	6,307	6,395	6,451	6,506
Associates & minorities	0	0	0	0	0
Other non-cash items	0	0	0	0	0
Recurring cash flow	20,448	22,704	23,858	27,791	35,547
Change in working capital	45,458	(9,601)	5,712	16,225	1,591
Capex - maintenance	0	0	0	0	0
Capex - new investment	(139,076)	(6,864)	(18,503)	(23,974)	(29,567)
Free cash flow to equity	(73,170)	6,239	11,067	20,042	7,571
Net acquisitions & disposals	0	47,434	0	0	0
Dividends paid	(3,544)	(9,125)	(1,222)	(1,494)	(2,033)
Non recurring cash flows	24,465	(133,209)	20,000	25,000	0
Net cash flow	(52,249)	(88,661)	29,845	43,548	5,538
Equity finance	0	0	0	0	0
Debt finance	49,575	92,839	(15,000)	(15,000)	(15,000)
Movement in cash	(2,674)	4,178	14,845	28,548	(9,462)

Expect asset sales of about INR45b.

Per share (INR)					
Recurring cash flow per share	12.05	13.38	14.06	16.37	20.94
FCF to equity per share	(43.11)	3.68	6.52	11.81	4.46

Balance Sheet (INRM) Year Ending Mar	2010A	2011A	2012E	2013E	2014E
Working capital assets	263,775	319,257	302,736	276,655	289,804
Working capital liabilities	(46,370)	(92,251)	(81,442)	(71,586)	(86,325)
Net working capital	217,406	227,006	221,295	205,069	203,479
Tangible fixed assets	276,868	281,841	293,949	311,472	334,534
Operating invested capital	494,274	508,848	515,244	516,542	538,012
Goodwill	12,680	13,840	13,840	13,840	13,840
Other intangible assets	0	0	0	0	0
Investments	55,052	9,958	9,958	9,958	9,958
Other assets	0	1,633	1,633	1,633	1,633
Invested capital	562,006	534,279	540,675	541,973	563,443
Cash & equivalents	(9,282)	(13,461)	(8,305)	(11,853)	(2,391)
Short term debt	0	0	0	0	0
Long term debt *	216,766	239,903	224,903	209,903	194,903
Net debt	207,484	226,442	216,598	198,050	192,512
Deferred tax	2,515	0	0	0	0
Other liabilities	0	0	0	0	0
Total equity	304,327	263,321	279,562	299,407	326,416
Minority interests	6,278	5,752	5,752	5,752	5,752
Invested capital	562,006	534,279	540,675	541,973	563,443

* includes convertibles and preferred stock which is being treated as debt

Per share (INR)					
Book value per share	179	155	165	176	192
Tangible book value per share	172	147	157	168	184

Financial strength					
Net debt/equity (%)	66.8	84.2	75.9	64.9	58.0
Net debt/total assets (%)	33.6	35.4	34.4	31.7	29.5
Current ratio (x)	5.9	3.6	3.8	4.0	3.4
CF interest cover (x)	6.9	1.8	2.5	3.6	3.4

Valuation	2010A	2011A	2012E	2013E	2014E
Recurring P/E (x) *	23.5	24.7	23.2	19.0	13.9
Recurring P/E @ target price (x) *	19.2	20.2	19.0	15.5	11.4
Reported P/E (x)	23.5	24.7	23.2	19.0	13.9
Dividend yield (%)	0.9	0.3	0.3	0.4	0.5
P/CF (x)	19.8	17.8	17.0	14.6	11.4
P/FCF (x)	(5.5)	64.9	36.6	20.2	53.5
Price/book (x)	1.3	1.5	1.4	1.4	1.2
Price/tangible book (x)	1.4	1.6	1.5	1.4	1.3
EV/EBITDA (x) **	15.0	14.5	11.8	11.6	9.7
EV/EBITDA @ target price (x) **	13.1	12.8	10.4	10.2	8.6
EV/invested capital (x)	1.1	1.2	1.2	1.1	1.1

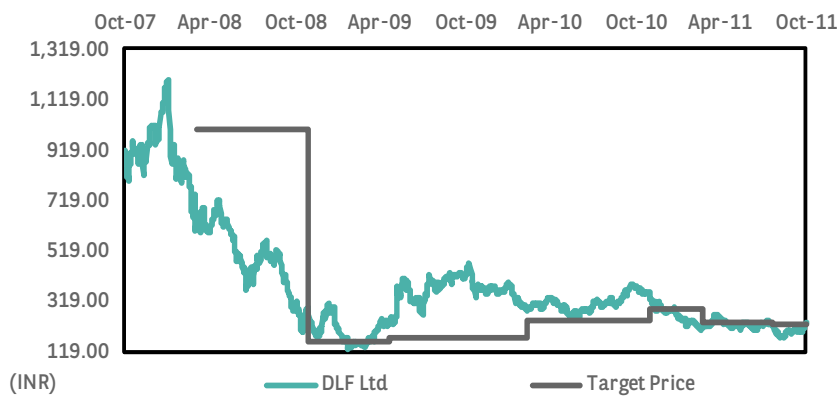
* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Sources: DLF Ltd; BNP Paribas estimates

History of change in investment rating and/or target price

DLF Ltd (DLFU IN)



Avneesh Sukhija started covering this stock from 04-Aug-2011

Price and TP are in local currency

Valuation and risks: Our target price for DLF is derived from justified P/BV multiples and DCF-based NAV. Key risks include asset sales of more than INR50b over the next 6 months and significant uptick in plotted development in the next 12 months

Source: Bloomberg, BNP Paribas

Disclaimers and Disclosures

ANALYST(S) CERTIFICATION

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-	-

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Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

** In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.*

Industry Recommendations

Improving (↑): The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

Neutral (↔): The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

Deteriorating (↓): The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

Country (Strategy) Recommendations

Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral (N). Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

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Total BNP Paribas coverage universe	555	Investment Banking Relationship	(%)
Buy	345	Buy	4.93
Hold	157	Hold	2.55
Reduce	53	Reduce	1.89

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