

EARNINGS REVIEW

DLF (DLF.BO)

Sell

Below expectations: EPS down but landscape better

What surprised us

DLF reported 2QFY10 results on October 29. Revenue was Rs17.5 bn (-53% yoy) vs. Bloomberg consensus of Rs18.2 bn and net profit was Rs4.39 bn (-77% yoy), below Bloomberg consensus expectations of Rs5.1 bn. More importantly, the balance sheet has shown signs of improvement from FY09, although it is relatively unchanged from 1QFY10: (1) net debt similar to 1QFY10 at some Rs120 bn; (2) DLF received about Rs5.5 bn from the sale of non-core assets during the quarter, taking the total receipts from sale of non-core assets to Rs10.6 bn in H1FY10; we await further clarity on whether it can raise much more over the next 1-2 quarters; (3) the housing market is showing encouraging signs and 2.7 mn sq ft were booked in the development business in 2Q, similar to 1Q; (4) lease volumes remain subdued, although DLF is optimistic that enquiries should translate into bookings over next 3-6 months; (5) 49 mn sq ft under construction in 2Q vs. 42 mn sq ft in 1Q.

What to do with the stock

While headline numbers were below consensus expectations, the outlook reads better than over the past few quarters, in our view. We expect more detail on home launches, office leasing, and progress with asset sales with the conference call later today. We rate the stock Sell with a RNAV-based, 12-month price target of Rs375. Upside risks include a sustained pick-up in property transaction volumes.

2Q snapshot: Sales down 53% yoy, net income down 77%

	Q2 FY10	Q2 FY09	yoy %	Q1 FY10	qoq %
Net Sales	17,509	37,444	-53%	16,499	6%
EBIT	8,967	22,623	-60%	7,668	17%
Margin %	51%	60%		46%	
Net income	4,397	19,354	-77%	3,960	11%
Margin %	25%	52%		24%	
EPS	2.59	11.35	-77%	2.33	11%

Source: Company data, Goldman Sachs Research.

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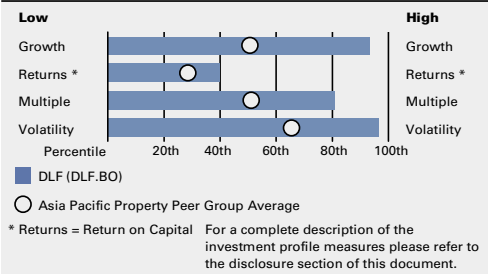
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India:
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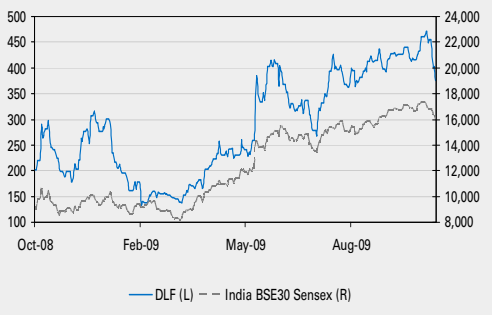
Investment Profile



Key data	Current
Price (Rs)	375.60
12 month price target (Rs)	375.00
Market cap (Rs mn / US\$ mn)	637,478.1 / 13,504.5
Foreign ownership (%)	6.6

	3/09	3/10E	3/11E	3/12E
EPS (Rs)	26.24	14.55	20.47	28.68
EPS growth (%)	(44.1)	(44.5)	40.7	40.1
EPS (diluted) (Rs)	26.24	14.55	20.47	28.68
EPS (basic pre-ex) (Rs)	26.24	14.55	20.47	28.68
P/E (X)	14.3	25.8	18.4	13.1
P/B (X)	2.8	2.5	2.2	1.9
EV/EBITDA (X)	14.0	19.7	14.4	9.7
Dividend yield (%)	--	--	--	--
ROE (%)	21.5	10.3	12.9	15.6

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(5.6)	62.7	85.5
Rel. to India BSE30 Sensex	(10.8)	15.6	4.5

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 10/29/2009 close.

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DLF: Summary financials

Profit model (Rs mn)	3/09	3/10E	3/11E	3/12E	Balance sheet (Rs mn)	3/09	3/10E	3/11E	3/12E
Total revenue	100,353.9	70,912.0	83,490.2	109,268.1	Cash & equivalents	11,956.1	7,421.4	14,733.9	82,150.3
Cost of goods sold	(34,684.6)	(31,028.8)	(30,297.7)	(38,770.5)	Accounts receivable	95,448.5	77,585.4	83,109.7	69,985.9
SG&A	(12,158.8)	(6,751.4)	(7,948.9)	(10,403.2)	Inventory	109,282.4	109,648.3	114,631.7	119,414.8
R&D	--	--	--	--	Other current assets	99,537.0	94,537.0	94,537.0	94,537.0
Other operating profit/(expense)	558.5	2,576.7	2,576.7	2,576.7	Total current assets	316,224.1	289,192.2	307,012.3	366,088.0
EBITDA	56,458.7	38,188.9	50,522.0	65,820.0	Net PP&E	136,005.9	140,823.5	151,640.9	169,238.0
Depreciation & amortization	(2,389.6)	(2,480.4)	(2,701.8)	(3,148.9)	Net intangibles	22,650.9	22,650.9	22,650.9	22,650.9
EBIT	54,069.0	35,708.5	47,820.3	62,671.1	Total investments	14,438.9	14,438.9	14,438.9	14,438.9
Interest income	2,353.1	917.7	1,035.7	4,211.7	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(5,548.4)	(6,873.7)	(5,433.7)	(4,473.7)	Total assets	489,319.7	467,105.4	495,742.9	572,415.7
Income/(loss) from uncons. subs.	(211.0)	0.0	0.0	0.0	Accounts payable	23,249.0	6,605.5	7,548.4	9,879.0
Others	1,062.2	0.0	0.0	0.0	Short-term loans	0.0	0.0	0.0	0.0
Pretax profits	51,725.0	29,752.5	43,422.3	62,409.2	Other current liabilities	54,995.0	64,729.6	77,686.3	123,349.4
Income tax	(6,753.6)	(5,057.9)	(8,684.5)	(13,730.0)	Total current liabilities	78,244.0	71,335.1	85,233.7	133,228.4
Minorities	(275.4)	0.0	0.0	0.0	Long-term debt	163,201.3	123,201.3	103,201.3	83,201.3
Net income pre-preferred dividends	44,696.0	24,694.5	34,737.8	48,679.1	Other long-term liabilities	0.0	0.0	0.0	0.0
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	163,201.3	123,201.3	103,201.3	83,201.3
Net income (pre-exceptionals)	44,696.0	24,694.5	34,737.8	48,679.1	Total liabilities	241,445.3	194,536.4	188,436.1	216,429.8
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	13,959.8	13,959.8	13,959.8	13,959.8
Net income	44,696.0	24,694.5	34,737.8	48,679.1	Total common equity	227,578.4	252,272.9	287,010.7	335,689.9
EPS (basic, pre-except) (Rs)	26.24	14.55	20.47	28.68	Minority interest	6,336.3	6,336.3	6,336.3	6,336.3
EPS (basic, post-except) (Rs)	26.24	14.55	20.47	28.68	Total liabilities & equity	489,319.7	467,105.4	495,742.9	572,415.7
EPS (diluted, post-except) (Rs)	26.24	14.55	20.47	28.68	BVPS (Rs)	133.49	148.64	169.11	197.79
DPS (Rs)	0.00	0.00	0.00	0.00	RNAV (Rs mn)	590,694.4	639,633.8	706,469.3	--
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	RNAVPS (Rs)	346.73	376.88	416.26	--
Free cash flow yield (%)	(7.8)	4.8	3.7	13.7					
Growth & margins (%)	3/09	3/10E	3/11E	3/12E	Ratios	3/09	3/10E	3/11E	3/12E
Sales growth	(30.5)	(29.3)	17.7	30.9	ROE (%)	21.5	10.3	12.9	15.6
EBITDA growth	(42.0)	(32.4)	32.3	30.3	ROA (%)	10.1	5.2	7.2	9.1
EBIT growth	(43.9)	(34.0)	33.9	31.1	ROACE (%)	13.6	7.5	9.8	13.0
Net income growth	(42.8)	(44.7)	40.7	40.1	Inventory days	1,072.5	1,287.7	1,351.0	1,101.7
EPS growth	(44.1)	(44.6)	40.7	40.1	Receivables days	312.0	445.3	351.3	255.7
Gross margin	65.4	56.2	63.7	64.5	Payable days	212.0	175.6	85.3	82.0
EBITDA margin	56.3	53.9	60.5	60.2	Net debt/equity (%)	61.0	42.5	28.8	0.3
EBIT margin	53.9	50.4	57.3	57.4	Interest cover - EBIT (X)	16.9	6.0	10.9	239.2
Cash flow statement (Rs mn)	3/09	3/10E	3/11E	3/12E	Valuation	3/09	3/10E	3/11E	3/12E
Net income pre-preferred dividends	44,696.0	24,694.5	34,737.8	48,679.1	P/E basic (X)	14.3	25.8	18.4	13.1
D&A add-back	2,387.7	2,480.4	2,701.8	3,148.9	P/B (X)	2.8	2.5	2.2	1.9
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	14.0	19.7	14.4	9.7
Net (inc)/dec working capital	(40,965.0)	10,588.3	3,392.0	56,334.4	Dividend yield (%)	--	--	--	--
Other operating cash flow	(2,623.6)	5,000.0	0.0	0.0					
Cash flow from operations	(13,235.4)	42,763.3	40,831.7	108,162.4	Underlying valuation	3/09	3/10E	3/11E	3/12E
Capital expenditures	(33,783.1)	(7,298.0)	(13,519.2)	(20,746.0)	Underlying profit (Rs mn)	44,696.0	24,694.5	34,737.8	48,679.1
Acquisitions	(6,173.6)	0.0	0.0	0.0	Underlying EPS (Rs)	26.24	14.55	20.47	28.68
Divestitures	3,033.6	0.0	0.0	0.0	Underlying ROE (%)	21.5	10.3	12.9	15.6
Others	258.8	0.0	0.0	0.0	Underlying ROA (%)	10.1	5.2	7.2	9.1
Cash flow from investments	(36,664.3)	(7,298.0)	(13,519.2)	(20,746.0)	Underlying ROACE (%)	13.6	7.5	9.8	13.0
Dividends paid (common & pref)	(3,719.7)	0.0	0.0	0.0	Underlying P/E (X)	14.3	25.8	18.4	13.1
Inc/(dec) in debt	41,113.7	(40,000.0)	(20,000.0)	(20,000.0)	Underlying dividend payout (%)	0.0	0.0	0.0	0.0
Common stock issuance (repurchase)	3,040.4	0.0	0.0	0.0	Underlying EPS growth (%)	(44.1)	(44.6)	40.7	40.1
Other financing cash flows	0.0	0.0	0.0	0.0					
Cash flow from financing	40,434.5	(40,000.0)	(20,000.0)	(20,000.0)					
Total cash flow	(9,465.3)	(4,534.7)	7,312.5	67,416.5					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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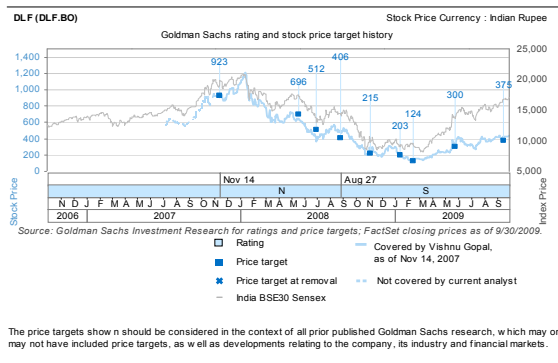
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