

4th Jul 2007

Not RatedIssue Price
Rs525

Sensex - 14,806

Stock Details

Sector	Real Estate
Equity Capital (Rs mn)	3410
Face Value (Rs)	2
Market Cap (Rs bn)	895.1

Share holding Pattern (%)

(31st Mar.'07)

Promoters	37.7
Promoter group	49.7
Public	12.6

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+91 22 6612 1289**DLF****The Realty behemoth**

Listing Note

DLF, the largest real estate company in India, recently concluded the largest ever IPO to hit the Indian market and has raised Rs91.9 billion at the price of Rs525 per share. This would propel the company into the top ten companies in the country in terms of Market Capitalisation. The company has a large land reserve of 10,255 acres with a saleable area of 574 million square feet (m sft). It has over the years established a strong brand name for itself and has an experienced management team with an established track record. On the valuation front, the IPO seems to be fairly priced with a limited room for upside in the short run. However, given the strong visibility (huge land bank coupled with an already established brand) and established track record of the management, we believe that the company has a potential to deliver growth on a sustained basis. We do not have a rating on the stock but are positively biased on the long term prospects of the company.

Unmatched capabilities in Real Estate business

DLF is the largest real estate company in the country having completed development of 224 m sft of area under various segments viz. plots, residential, commercial and retail properties. The company has a large land bank of 10,255 acres with a total saleable area of 574 m sft. A major portion of this land bank is located predominantly in and around the metros (almost 75%). Over the past few decades, the company has built a strong brand name mainly on account of the success of DLF city in Gurgaon (NCR), which is considered as one of the largest integrated township in Asia. We believe that the company's size and its financial strength will give it a huge competitive advantage to the company in further building up its land reserves going ahead.

Visibility of earnings provides comfort

The company currently has an area of 44 msft under development to be completed over the next 3-4 years. This itself provides a strong revenue visibility in the coming few years. The company has also been aggressively expanding its land portfolio having added 554 acres recently. Over the period of last four years, the company has recorded a growth in net profits at a CAGR of 63% (excluding profits from sale to associate companies). The foray into other related businesses will also ensure a steady flow of revenue to the company.

Valuation: fairly priced, provides long term opportunity

The NPV based valuation for the company's existing land bank suggests a valuation of Rs535. Thus the IPO seems to be fairly priced and provide a limited room for upside in the short run. However, given the strong business capabilities and the established management, we believe that the company has the potential to deliver growth on a sustained basis. Also, the company has in the past few years forayed into related businesses like Infrastructure development, hospitality, multiplex business etc. which will provide a recurring flow of revenue going ahead. We do not have a rating on the stock but are positively biased on the long term prospects of the company.

Aggressively expanding the land reserves:

DLF is the largest real estate company in the country and possesses a large land reserve of 10,255 acres with a saleable area of 574 m sft. The company in the draft red herring prospectus (DRHP) filed with the SEBI in May, 2006 had declared a land reserve of close to 4300 acres with a total saleable area of 228 m sft. Since then, the company has more than doubled its land reserves and is looking to continually expand its portfolio of land reserve.

For close to 55% of this land bank the company has clear rights i.e. the properties are either owned by the company or they have sole development rights for the same. For almost 35% of the land, the company has entered into MOUs or agreement to sell or develop.

Status of Land bank

	Acres	(%)	Saleable area (m sft)
Owned	1160	11.3	116
Sole Development rights	4575	44.6	217
MOUs	3685	35.9	201
Joint development right	248	2.4	13
Proportionate interest in JVs	587	5.7	27
	10255		574
Development plans yet to be finalised	554		
Total Land bank	10809		

Source : RHP, Emkay Research

The company has already paid for almost 68% of the total agreement value for its current land bank.

Total Consideration for land bank	134.9 billion
Currently due	43.9 billion
For 554 acres	10.5 billion
Total Due for land	54.4 billion

Source : RHP, Emkay Research

Apart from the land bank, company also has 3.5 msft of completed buildings and 7.2 msft of plots in NCR. The company has also acquired plots for 23 luxury hotels sites, a golf course and community clubs which are not included in the land bank.

We believe that the company's size and its financial strength will give it a huge competitive advantage to the company in further building up its land reserves going ahead.

Expanding Geographically

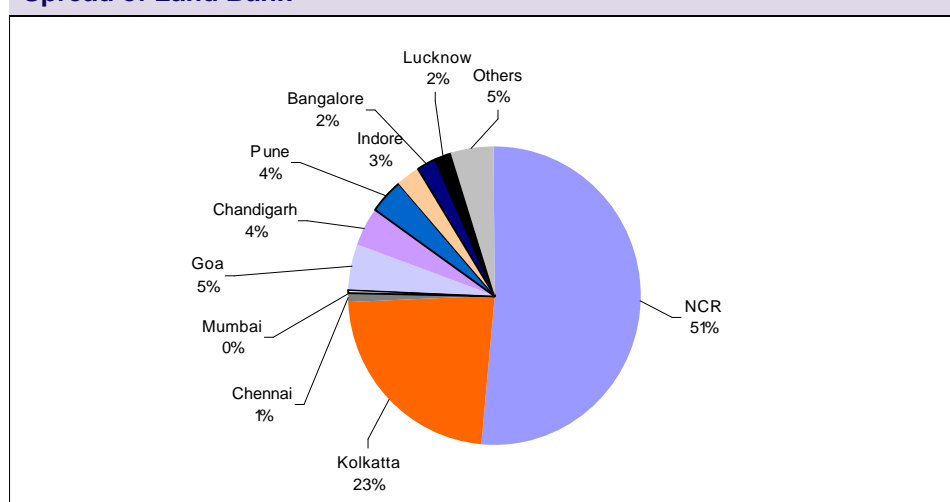
DLF's operations in the past has been pre-dominantly concentrated in the National capital region (NCR), mostly in the city of Gurgaon where the company developed the 3000 acre DLF city, one of the largest integrated township in Asia. Most of the completed developments in the three main line of business viz. residential, commercial and retail have been in this region only (over 75%). However, the company has recently started some of the projects in other parts of the country especially in the commercial segment wherein the company is developing number of IT parks in various cities like Hyderabad, Kolkatta, Chennai etc.

Concentration in NCR (m sft)

	Completed	Under Const.
Residential		
NCR	15	7
Others	4	0
	19	7
Commercial		
NCR	4	9
Others	3	18
	7	27
Retail		
NCR	2.5	8
Others	0.5	2
	3	10

Source : RHP, Emkay Research

A large chunk of the company's land bank (close to 75% with over 50% in the NCR) is located in and around the metros. The remaining land bank is also located in and around the major cities like Bangalore, Chandigarh, Pune etc. The company already posses land in and around 31 cities and intend to spread to 60 cities

Spread of Land Bank

Source : RHP, Emkay Research

Projects spread across residential, commercial and retail segment

The company operates in three major business lines viz. residential, commercial and retail. While in the past, a major chunk of revenue was through sell of plots, going ahead residential property will comprise the main business segment for the company (comprising more than 70% of the planned projects).

Residential:

In the residential segment, the company's projects are focused on creating new suburbs through large scale developments, as well as developments of the luxury and super luxury residential accommodation on smaller scale. The company builds and sells its residential properties and in some cases manages the properties for a management fee. The company intends to take advantage of urbanization by investing in the development of townships on the peripheries of cities around the country.

Business Lines

(m sft)	Completed Developments	Projects under Const	Status	Planned Projects	(%)
Plots	195	0		46	8.7
Residential	19	7	Available for sale	375	71.3
Commercial	7	27	Lease agreement or LOI signed for 11.2 m sft	60	11.4
Retail	3	10	4 msft available for sale/lease	44	8.4
Total	224	44		526	100

Source : RHP, Emkay Research

Commercial:

A number of ongoing projects of the company is in the commercial segment. In the past, the company has mostly followed the model of build and renting its commercial properties. However in FY07, the company sold some of its commercial properties to the group company DAL. The company currently owns a total of 4.6 m sft of commercial lettable space, of which 97.4% is occupied. Most of the future development in this space would be of the IT-specific and other SEZs developed by the company. DLF plans to give buildings in SEZ on long term or perpetual lease. DLF plans to sale non-SEZ commercial space through competitive bidding process in the future.

Retail:

In the retail segment, the company builds retail malls in six formats: stand-alone stores, shopping centers, prime downtown shopping districts, neighborhood malls, destination malls, super luxury malls. In the past, the retail properties were sold as well as leased out. However, going ahead, the company intend to lease out most of the properties built in this space because they want to manage malls and charge fees for that.

Diversifying into related fields

In the last few years, the company has ventured in a number of related businesses viz. hospitality, infrastructure development, multiplex business, SEZs etc. The company has entered into a number of Joint ventures and partnerships to establish in these businesses.

Business	Partner
Construction	Laing O'Rourke
Designing of properties	WSP
Hospitality	Hilton, Bharat Hotels
Capital markets	Prudential Intl. Inv. Corp
Airport modernisation	Fraport

Source : RHP, Emkay Research

Hospitality:

The company recently entered into a strategic partnership with the leading hospitality major Hilton and plans to develop a chain of hotels and service apartments (50-75) across the country under the Hilton brand. This is a logical extension of the company's business and the partnership with a renowned brand like Hilton will be the right beginning for the company in the field.

Multiplex:

The company runs its multiplex business under the name DT Cinemas. The company already has two multiplexes operational in Gurgaon and has a number of multiplexes coming up in various malls being built by the company in New Delhi, Chandigarh and other cities. The company intends to aggressively ramp up its presence in this space and intend to build multiplexes in all the malls built by them.

SEZs

The company has planned several SEZs covering an aggregate area of 26,100 acres and are at various stages of regulatory approvals. Some of the major SEZ being a multi product SEZ in Ludhiana (2500 acres), a multi sector, product-specific SEZ in Amritsar (1087 acres) etc. We believe that the development of SEZ will be the major thrust area for the company going ahead as the company has the capabilities and muscle for development of such projects.

SEZ Plans

Location	Nature	Size	Status
Gurgaon	IT-Specific	-*	Approved-BoA
Gurgaon	IT-Specific	-*	Approved-BoA
Pune	IT-Specific	-*	Approved-BoA
Chennai	IT-Specific	-*	Notified
Delhi	IT-Specific	-*	In-principle approval
Bhubaneswar	IT-Specific	-*	In-principle approval
Ludhiana	Multi-product	2500	In-principle approval
Amritsar	Multi-Sector Product Specific	1087	In-principle approval
Gurgaon	Multi-product	20000	To seek approval
Ambala	Multi-product	3000	To seek approval

Source : RHP, Emkay Research / *size not available

Infrastructure Development:

The company recently entered into a joint venture with UK-based construction major Laing O'Rourke Plc., which has been the principal contractor for a number of major construction projects globally. The company is now set to participate in the booming infrastructural development space for construction of roads, bridges, airports etc. The company has already bid for ten projects across the segments such as roads, railways, airport and port.

Others:

The company also has interest in businesses like property management services, power and insurance product distribution. In April, 2007, the company also entered into an agreement with Prudential International Investment Corp for a 40:60 JV focused on Indian capital Markets to be formed with a cap of USD 8.3 million

We believe that this new business initiative will bring a new and stable stream of revenue to the company. The company should be able to capitalize its expertise in real-estate development in these businesses and should benefit from the experience of its partners.

Valuation: fairly priced, provides long term opportunity

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Calculation of NPV	Rs. Mn.
Total Land bank (acres)	10,255
Total Developable area (msft)	574
Average Realisation (Rs/sft)	6,814
Less: Avg Conversion Cost	1,487
Less: SGA exp and contingencies	124
Less: Proportionate Cost of land (Historical)	235
Gross margin	4,968
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PBT	2,851,659
Tax	941,047
Average PAT (Rs/sft)	1,910,612
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PV of Net inflow	971,680
Add: Lease rental value capitalised	11,270
Add: Proceeds from IPO	91,875
Less: Net Debt	95173
Less: Creditors for land acquired	43900
Less: Customer advances	24039
	911,713
<hr/>	
Number of shares outstanding	1705
NPV / share	535

Key Concerns

- The company has yet not obtained a certificate for change of land use for appx. 60% of the total land bank. This may affect the company's development plans as such issues are subject to number of stringent regulations as well as political influences.
- A large proportion of fiscal FY07 revenues and profits were on account of sale of some commercial properties to an associate company DAL. Frequent transfer of properties between the group companies can raise corporate governance issues
- The company has a high debt-equity ratio of 2.5:1 (post issue). This will act as hindrance for the company to raise funds in future.
- The performance of the company is directly dependent on the real estate prices, which have run up sharply across the country in the last couple of years. Any correction in the prices would affect the company's financial performance.
- There has been a slowdown in the demand for real estate owing to an increase in the interest rates. Any further increase in the interest rate will adversely affect the demand conditions.

Profit & Loss Statement

Y/E, Mar (Rs. m)	FY04	FY05	FY06	FY07
Net Sales	5058.0	6081.0	11536.0	26152.0
Growth (%)	-11.4	20.2	89.7	126.7
Expenses	3846.0	4399.0	6779.0	11212.0
Growth (%)	11.2	14.4	54.1	65.4
Cost of revenue	2685.0	3165.0	5243.0	7090.0
% of sales	53.1	52.0	45.4	27.1
Establishment	313.0	447.0	397.0	922.0
% of sales	6.2	7.4	3.4	3.5
Other expenses	848.0	787.0	1139.0	3200.0
% of sales	16.8	12.9	9.9	12.2
EBIDTA	1212.0	1682.0	4757.0	14940.0
Growth (%)	-46.1	38.8	182.8	214.1
EBIDTA %	24.0	27.7	41.2	57.1
Depreciation	288.0	333.0	361.0	571.0
Net Operating Profit	924.0	1349.0	4396.0	14369.0
Other income	208.0	179.0	884.0	14189.0
EBIT	1132.0	1528.0	5280.0	28558.0
Finance Charges	330.0	390.0	1685.0	3076.0
PBT	802.0	1138.0	3595.0	25482.0
Provision for Tax	250.0	259.0	1668.0	6058.0
PAT	552.0	879.0	1927.0	19424.0
Growth (%)	-45.7	59.2	119.2	908.0
Net Margin (%)	10.5	14.0	15.5	48.1
Minority Interest	14.0	14.0	10.0	11.0
Net Profit	538.0	865.0	1917.0	19413.0

Source : Company, Emkay Research

Balance Sheet

Y/E, Mar (Rs. m)	FY04	FY05	FY06	FY07
Equity share capital	35.0	35.0	378.0	12557.0
Reserves & surplus	6575.0	7436.0	9123.0	27115.0
Minority Interest	108.0	43.0	54.0	92.0
Networth	6718.0	7514.0	9555.0	39764.0
Deferred tax liability	1195.0	962.0	92.0	187.0
Secured Loans	5604.0	7952.0	39560.0	92053.0
Unsecured Loans	1505.0	1724.0	1760.0	7275.0
Loan Funds	7109.0	9676.0	41320.0	99328.0
Total Liabilities	15022.0	18152.0	50967.0	139279.0
Gross Block	5083.0	8253.0	13023.0	17787.0
Less: Depreciation	1260.0	1549.0	1891.0	2412.0
Net block	3823.0	6704.0	11132.0	15375.0
Goodwill	522.0	522.0	8489.0	8935.0
Capital work in progress	128.0	3506.0	5911.0	26497.0
Investment	991.0	400.0	8300.0	2107.0
Current Assets	21493.0	16364.0	35604.0	128794.0
Inventories	6566.0	7049.0	16409.0	57006.0
Sundry debtors	9009.0	2852.0	6580.0	15195.0
Cash & bank balance	279.0	424.0	1950.0	4155.0
Loans & advances	5603.0	6019.0	10642.0	52371.0
Other assets	36.0	20.0	23.0	67.0
Current liabilities	11935.0	9344.0	18469.0	42429.0
Net current assets	9558.0	7020.0	17135.0	86365.0
Total Assets	15022.0	18152.0	50967.0	139279.0

Source : Company, Emkay Research

Cash Flow

Y/E, Mar (Rs. m)	FY04	FY05	FY06	FY07
Pre-tax profit	802.0	1138.0	3595.0	25495.0
Depreciation	288.0	333.0	361.0	571.0
Interest Paid	330.0	391.0	1685.0	3076.0
Others	-22.0	-76.0	-617.0	-13857.0
Chg in working cap	-1125.0	4416.0	-13765.0	-67518.0
Tax paid	-318.0	-448.0	-752.0	-6078.0
Operating cash Inflow	-2205.0	5754.0	-9493.0	-58311.0
Capital expenditure	-855.0	-8299.0	-5322.0	-18878.0
Free Cash Flow	-3060.0	-2545.0	-14815.0	-77189.0
Investments	-59.0	591.0	-15520.0	13256.0
Interest received	155.0	92.0	712.0	750.0
Minority Interest	32.0	-65.0	11.0	38.0
Equity Capital Raised	0.0	0.0	343.0	0.0
Loans Taken / (Repaid)	3517.0	2595.0	31677.0	67505.0
Dividend (incl tax)	-14.0	-16.0	-16.0	-18.0
Interest/Finance charges	-583.0	-645.0	-1484.0	-2898.0
Net chg in cash	-12.0	7.0	908.0	1444.0
Opening cash position	203.0	191.0	198.0	1106.0
Closing cash position	191.0	198.0	1106.0	2550.0

Source : Company, Emkay Research

Ratios

Y/E, Mar (Rs. m)	FY04	FY05	FY06	FY07
Per share data				
EPS (x)	0.32	0.51	1.12	11.39
EBITDA / Share (x)	0.7	1.0	2.8	8.8
Book Value (x)	3.9	4.4	5.6	23.3
Valuation Ratios				
PER (x) (@550)	1743.0	1084.1	489.2	48.3
Price / BV (x)	139.6	124.8	98.1	23.6
EV/Sft	1645.6	1649.8	1702.3	1799.5
Return Ratios				
RoCE	7.5	8.4	10.4	20.5
RoE	8.2	11.7	20.2	48.8
Margins				
Operating Margins	24.0	27.7	41.2	57.1
Net Margin	10.5	14.0	15.5	48.1
Effective Tax Rate	31.2	22.8	46.4	23.8
Total Debt/Equity (x)	1.1	1.3	4.3	2.5
Dupont				
NPM (PAT/Sales)	3.4	4.6	4.2	3.3
Total asset T/O (Sales/Total assets)	1.7	2.0	1.3	1.0
Equity multiplier (Total assets/total equity)	4.1	2.9	2.5	2.6
RoE (%)	23.5	26.5	13.3	8.8

Source : Company, Emkay Research

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