

Dismal quarter, positive commentary

Reason for report: Q2FY13 results review

The Q2FY13 headline numbers of DLF are disappointing and below estimates with EBITDA at Rs7.5bn (down 30% QoQ) and PAT at Rs1.4bn (down 53% QoQ). EBITDA margin declined sharply to 36.6% in Q2FY13 from 48.6% in Q1FY13 primarily led by cost overrun in projects reaching completion. Operationally, things continue to remain sluggish for DLF with no incremental launches in the quarter. The company registered sales of 1.6mn sqft in Q2FY13 (H1FY13 sales at ~3mn sqft). The commercial segment continued to remain listless with net addition of 0.24mn sqft in Q2FY13. Quarterly annuity income came in at Rs4.8bn (Rs4bn in rental income). Asset sales for FY13 stood at Rs31.3bn (NTC Mill land at Rs27.3bn) and the company has guided that Aman Resorts and wind power assets are nearing final stage and likely to be concluded in H2FY13. Net debt increased by Rs5.4bn to Rs232bn for the quarter.

We believe it would be difficult for DLF to meet the sales growth guidance of ~25% in value terms for FY13 unless it significantly ramps up its launch pipeline and is able to launch the entire 10mn sqft of launches planned in H2FY13. Operating cash flow continues to remain weak, which we believe is unlikely to improve in the near term. Though we expect incremental large ticket size asset sales would enable DLF to deleverage its balance sheet, we believe the focus will now shift to operating performance where the company has lagged for the past couple of quarters. We expect the operating cash flow profile might improve by H1FY14, however, revenue recognition of newly-launched projects will only hit the P&L by H2FY14/H1FY15. Further, the commercial segment which contributes ~53% to the NAV continues to lag and remain a cause for concern. We maintain REDUCE on DLF.

- ▶ **Operationally a weak quarter:** The sales momentum declined from the average of ~3mn sqft/qtr in FY12 to ~1.6mn sqft in Q2FY13 and ~1.3mn sqft in Q1FY13. Where other developers recorded peak sales in H1FY13, DLF was unable to launch any project in H1FY13 and recorded dismal sales. Sales in Gurgaon declined further to 0.4mn sqft, super metros accounted for 0.12mn sqft and other cities contributed the remaining sales. The commercial segment continued to slide, with net leasing of 0.24mn sqft. We remain concerned about the continued pressure on the commercial segment given the segment contributes 53% to DLF's NAV. Prolonged delay in launches and weakness in the commercial segment can negatively impact the NAV.
- ▶ **Operating cash flow still weak:** DLF generated free cash flow of Rs5.3bn in Q2FY13 (including asset sale realisation of Rs5.6bn) against an interest outgo of Rs7.3bn. Though we believe the sale of NTC Mill land has brought the net debt down to Rs21.2bn (as of November 2011), sluggish sales volume in H1FY13 could pressurise the operating cash flow in the coming quarters.

Market Cap	Rs349bn/US\$6.4bn
Reuters/Bloomberg	DLF.BO/DLFU IN
Shares Outstanding (mn)	1,697
52-week Range (Rs)	258/175
Free Float (%)	21.4
FII (%)	15.9
Daily Volume (US\$'000)	24,174
Absolute Return 3m (%)	(5.6)
Absolute Return 12m (%)	(8.0)
Sensex Return 3m (%)	5.9
Sensex Return 12m (%)	9.1

Year to Mar	FY11	FY12	FY13E	FY14E
Revenue (Rs mn)	95,606	96,294	110,173	122,052
Net Income (Rs mn)	16,397	12,263	14,930	18,386
EPS (Rs)	9.7	7.2	8.8	10.8
% Chg YoY	(9.9)	(25.2)	21.7	23.1
P/E (x)	21.3	28.5	23.4	19.0
CEPS (Rs)	13.4	11.3	12.9	15.3
EV/E (x)	15.9	14.8	12.6	11.1
Dividend Yield	1.2	1.2	1.2	1.2
RoCE (%)	5.7	5.8	6.1	6.6
RoE (%)	6.6	4.9	5.8	6.8

Real Estate

Target price Rs209

Earnings revision

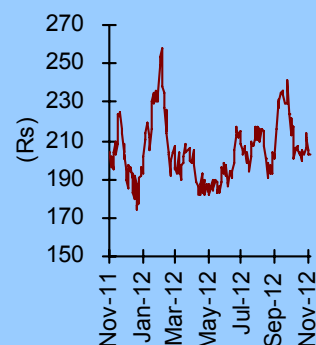
(%)	FY13E	FY14E
Sales	↓ 0.2	↓ 0.2
EBITDA	↓ 0.3	↓ 0.3
EPS	↓ 6.1	↓ 5.8

Shareholding pattern

	Mar '12	Jun '12	Sep '12
Promoters	78.6	78.6	78.6
Institutional investors	15.8	15.9	16.4
MFs and UTI	0.0	0.0	0.3
Insurance Cos,			
Banks, FIs	0.3	0.3	0.2
FIs	15.5	15.6	15.9
Others	5.6	5.5	5.0

Source: www.nseindia.com

Price chart



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- **Delayed launches to hurt cash flow, Maintain REDUCE:** H2FY13 earnings and cash flow will be dominated largely by monetisation of NTC Mill land and Aman Resorts, however, the core earnings and cash flow adjusting for these monetisation will remain lethargic during the same period (this could be the focus area for the coming quarters). Pickup in core cash flow will happen only by Q4FY13, leading to H1FY14 and P&L impact of the new launches will be witnessed only by H2FY14. We believe DLF has marginally missed out on the pent-up demand in the National Capital Region (NCR), which other developers (local as well as new players) managed to capitalise (Godrej Properties sold ~1mn sqft with sales value of ~Rs6bn in Q2FY13). We maintain REDUCE on DLF with price target of Rs209/share.

Q2FY13 earnings review

The Q2FY13 headline numbers of DLF were disappointing and below estimates. EBITDA came in at Rs7.5bn (down 30% QoQ) and PAT at Rs1.4bn (down 53% QoQ). EBITDA margin declined sharply to 36.6% in Q2FY13 from 48.6% in Q1FY13 mainly led by cost overrun in projects nearing completion. Operationally, things continue to remain sluggish for the company with no incremental launches in the quarter. The company registered sales of 1.6mn sqft in Q2FY13 (H1FY13 at ~3mn sqft). The commercial segment continued to remain sluggish with net addition of 0.24mn sqft in Q2FY13. Quarterly annuity income came in at Rs4.8bn (Rs4bn in rental income). Asset sales for FY13 stood at Rs31.3bn (NTC Mill land at Rs27.3bn) and the company has guided that Aman Resorts and wind power assets are at a pre-closing diligence stage and likely to be concluded in H2FY13. The net debt for the quarter increased by Rs5.4bn to Rs232bn.

Table 1: Q2FY13 earnings review

(Rs mn, year ending March 31)

	Q2FY13	Q2FY12	% chg (YoY)	Q1FY13	% chg (QoQ)
Net Sales	20,395	25,324	(19)	21,977	(7)
Other operating income	-	-	-	-	-
Total Operating income	20,395	25,324	(19)	21,977	(7)
Raw Materials	8,725	9,466	(8)	6,442	35
Personnel Cost	1,554	1,539	1	1,406	10
Other Expenses	2,653	2,589	2	3,459	(23)
Total Expenses	12,932	13,594	(5)	11,307	14
EBITDA	7,464	11,730	(36)	10,670	(30)
Interest (Net)	5,224	5,263	(1)	6,226	(16)
Depreciation	1,837	1,753	5	1,786	3
Other Income	1,173	448	162	1,311	(11)
Recurring pre-tax income	1,575	5,162	(69)	3,970	(60)
Taxation	394	1,475	(73)	1,137	-
Recurring Net Income	1,182	3,687	(68)	2,833	(58)
Prior period adjustments	90	42	-	(15)	-
Less: Minority interest	(116)	-	-	(74)	-
Add: Associate profits	(2)	(5)	-	36	-
Reported Net income	1,385	3,724	(63)	2,928	(53)
Tax rate (%)	25.0	28.6		28.6	
EBITDA margins (%)	36.6	46.3		48.6	
Net profit margins (%)	6.8	14.7		13.3	

Source: Company data, I-Sec research

Valuations – Reasonable

Our NAV for DLF stands at Rs355bn or Rs209/share. At the current price, DLF is trading at FY13 and FY14 PE of 23.4x and 19.0x respectively and a P/BV of 1.3x. We expect earnings CAGR of 22% between FY12-14E.

Table 2: DLF valuations

(Rs mn)

	FY13E
Residential	222,147
Office	194,734
Retail	79,429
Hotels	28,046
Other assets (JV, acquisitions, auxiliary businesses)	46,200
Net debt	(207,123)
Discounted land cost payable	(8,581)
Total value	354,852
Value/share (Rs)	209

Source: I-Sec research

We expect cash flow to marginally improve in FY13 on the back of asset monetisation. Though we have a REDUCE rating on the stock, we believe any revival in demand led by launches could be a potential upside risk to our call.

Financial summary

Table 3: Profit and Loss statement

(Rs mn, year ending March 31)

	FY11	FY12	FY13E	FY14E
Operating Income (Sales)	95,606	96,294	110,173	122,052
Operating Expenses	58,079	57,251	64,495	71,076
EBITDA	37,527	39,043	45,677	50,976
% margins	39.3	40.5	41.5	41.8
Depreciation & Amortisation	6,307	6,888	7,011	7,658
Gross Interest	17,056	22,464	21,663	20,685
Other Income	5,839	5,945	3,843	3,126
Recurring PBT	20,002	15,635	20,846	25,759
Add: Extraordinaries	0	(160)	0	0
Less: Taxes	4,594	3,694	6,254	7,728
Less: Minority Interest	(988)	(321)	(337)	(354)
Net Income (Reported)	16,397	12,103	14,930	18,386
Recurring Net Income	16,397	12,263	14,930	18,386

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY11	FY12	FY13E	FY14E
Assets				
Total Current Assets	301,681	325,961	336,645	350,912
of which cash & cash eqv.	13,218	15,062	1,789	735
Total Current Liabilities & Provisions	98,163	131,882	144,927	152,221
Net Current Assets	203,518	194,079	191,719	198,691
Investments				
of which	9,958	11,268	12,670	13,871
Strategic/Group	2,805	9,733	11,136	12,336
Other Marketable	7,152	1,535	1,535	1,535
Net Fixed Assets	281,065	277,069	271,577	264,258
of which				
Capital Work-in-Progress	102,387	84,864	76,681	74,016
Goodwill	13,840	16,248	17,873	19,660
Total Assets	508,381	498,663	493,839	496,481
Liabilities				
Borrowings	240,942	225,447	210,447	199,447
Deferred Tax Liability	(1,633)	(3,349)	(3,349)	(3,349)
Minority Interest	5,752	4,207	4,417	4,638
Equity Share Capital	3,394	3,394	3,394	3,394
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	146,397	155,545	165,510	178,931
Net Worth	263,320	272,359	282,325	295,746
Total Liabilities	508,381	498,663	493,839	496,481

Source: Company data, I-Sec research

Table 7: Quarterly trend

(Rs mn, year ending March 31)

	Dec-11	Mar-12	Jun-12	Sep-12
Net sales	20,344	26,168	21,977	20,395
% growth (YoY)	(18.0)	(2.5)	(10.1)	(19.5)
EBITDA	8,227	7,976	10,670	7,464
Margin (%)	40.4	30.5	48.6	36.6
Other income	3,617	1,147	1,311	1,173
Add: Extraordinaries	(4)	(101)	(15)	90
Net profit	2,584	2,117	2,928	1,385

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY11	FY12	FY13E	FY14E
Operating Cashflow	(19,285)	8,484	18,902	23,801
Working Capital Changes	19,700	10,202	(11,716)	(8,910)
Capital Commitments	(6,038)	(6,422)	(4,547)	(3,328)
Free Cashflow	(5,623)	12,264	2,638	11,564
Cash flow from Investing	51,126	11,562	3,843	3,126
Activities				
Issue of Share Capital	0	0	0	0
Buyback of shares	0	0	0	0
Inc (Dec) in Borrowings	24,172	(15,495)	(15,000)	(11,000)
Dividend paid	(4,964)	(4,964)	(4,964)	(4,964)
Extraordinary Items	0	(160)	0	0
Chg. in Cash & Bank	4,087	1,845	(13,273)	(1,054)
balances				

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY11	FY12	FY13E	FY14E
Per Share Data (Rs)				
EPS(Basic Recurring)	9.7	7.2	8.8	10.8
Diluted Recurring EPS	9.7	7.1	8.8	10.8
Recurring Cash EPS	13.4	11.3	12.9	15.3
Dividend per share (DPS)	2.5	2.5	2.5	2.5
Book Value per share (BV)	144.5	149.9	155.7	163.7
Growth Ratios (%)				
Operating Income	28.8	0.7	14.4	10.8
EBITDA	7.1	4.0	17.0	11.6
Recurring Net Income	(9.9)	(25.2)	21.7	23.1
Diluted Recurring EPS	(9.9)	(25.2)	21.7	23.1
Diluted Recurring CEPS	5.9	(15.6)	14.6	18.7
Valuation Ratios (x)				
P/E	21.3	28.5	23.4	19.0
P/CEPS	15.4	18.3	15.9	13.4
P/BV	1.4	1.4	1.3	1.3
EV / EBITDA	15.9	14.8	12.6	11.1
EV / Operating Income	6.2	6.0	5.2	4.6
EV / Operating FCF	(105.9)	47.1	218.4	49.0
Operating Ratio				
Raw Material/Sales (%)	37.9	31.7	40.6	39.4
Other Income / PBT (%)	29.2	38.0	18.4	12.1
Effective Tax Rate (%)	23.0	23.6	30.0	30.0
NWC / Total Assets (%)	37.4	35.9	38.5	39.9
Inventory Turnover (days)	1,016	1,223	1,134	1,092
Receivables (days)	63	63	74	72
Payables (days)	140	154	157	160
D/E Ratio (x)	0.9	0.8	0.7	0.7
Return/Profitability Ratio (%)				
Recurring Net Income Margins	16.2	12.0	13.1	14.7
RoCE	5.7	5.8	6.1	6.6
RoNW	6.6	4.9	5.8	6.8
Dividend Payout Ratio	25.9	34.6	28.4	23.1
Dividend Yield	1.2	1.2	1.2	1.2
EBITDA Margins	39.3	40.5	41.5	41.8

Source: Company data, I-Sec research

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