

## Slackening business environment

- **DLF's 1QFY12 earning report was disappointing on several counts:** a) Fresh **leasing volume** declined 39% to 0.97mn sq ft this quarter vs 1.6mn quarterly run rate in FY11; 'uncertainty on economic growth', as per management. Some cancellations (0.24mn) were witnessed this quarter as well. b) Even fresh **residential sales** (2.2mn - c.60% were plots) were 12% lower vs FY11 run rate. c) **Debt** remained at the elevated level of ₹239bn (gross); net debt has gone up slightly QoQ. d) **Receivables** (including unbilled receivables) remained high at ₹90bn+ vs. c.₹100-110bn of yearly revenue based on current run rate. Continuing efforts at **non-core assets** monetisation (₹1.7bn realised this quarter - see trend inside) is commendable, which coupled with the recent strategy change (more of plotted sales rather than vertical-development to upfront cash-flows and mitigate execution risk) are what hopes are hinged on, as far as debt reduction goes. This remains critical as **interest outgo** took away c.70% of the operating cash-flow generated this quarter (90%+ on rolling 12M basis) and **interest charge** now comprises 20% of revenue (vs 15%/18% in FY10/FY11) - highest since listing.
- **Financials remained subdued; upmove in rental stream a positive:** DLF reported 1QFY12 revenue, EBITDA and adjusted net profit of ₹24.5bn, ₹11.1bn and ₹3.6bn respectively. Revenue/EBITDA grew 21%/13% YoY but higher interest charge (+28%), lower other income (-57%) led an 11% YoY fall in adjusted net profit despite lower tax rate (down 380bps). Sequentially, revenue was 9% lower and EBITDA (adjusted for cost reset in 4QFY11) was marginally down by 3%. EBITDA margin declined 290bps YoY to 45.4% this quarter vs 48.3% in 1QFY11 (4Q: 42.5% on adjusted basis) but decline in PBT margin was even sharper (-775bps) due to the higher interest charge. 26% QoQ growth in rental income (₹3.7bn in 1Q) was a positive; total area under lease stood at c.24.5mn sq ft as at Jun'11 - 3% higher sequentially, up 20% on YoY comparison. Average office rentals, however, remained in the sub-₹50/sq ft per month range over the past several quarters.
- **Maintain TP; pessimistic-bias remains:** We have broadly maintained our earning and valuation estimates barring some slight tweaks; TP stays at ₹205 based on 1x Mar'12 NAV. Cash-flow disappointment, heightened debt levels, slackening-business momentum remain areas of concern to us.

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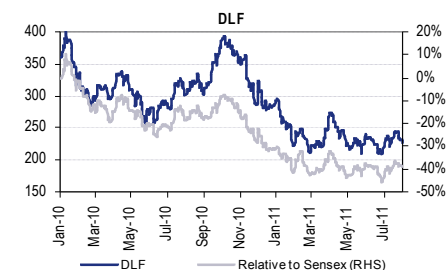
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### Key Data

Market cap (bn)	₹ 386.7 / US\$ 8.7
Shares in issue (mn)	1,697.6
Diluted share (mn)	1,701.3
3-mon avg daily val (mn)	₹ 1508.6/US\$ 34.1
52-week range	₹ 397.5/186.0
Sensex/Nifty	18,110/5,457
₹/US\$	44.3

### Daily Performance



%	1M	3M	12M
Absolute	3.4	0.7	-25.0
Relative	6.9	5.3	-25.2

\* To the BSE Sensex

Shareholding Pattern		(%)
	Jun'11	Jun'10
Promoters	78.63	78.64
FII	14.92	15.05
DII	0.44	0.54
Public / others	6.01	5.77

### Exhibit 1: Financial Summary

(₹ mn)

Y/E March	FY09A	FY10A	FY11A	FY12E	FY13E
Net sales	100,354	74,229	95,606	112,593	132,858
Sales growth (%)	-26.4	-26.0	28.8	17.8	18.0
EBITDA	55,900	35,116	37,527	52,711	61,972
EBITDA (%)	55.7	47.3	39.3	46.8	46.6
Adjusted net profit	44,682	18,140	15,424	22,824	30,876
EPS (₹)	26.2	10.7	9.1	13.4	18.1
EPS growth (%)	-44.1	-59.3	-15.0	48.0	35.3
ROCE (%)	13.3	5.1	4.8	7.0	8.5
ROE (%)	20.4	6.6	5.4	8.3	10.3
PE (x)	8.7	21.4	25.1	17.0	12.6
Price/Book value (x)	1.6	1.3	1.5	1.4	1.2
EV/EBITDA (x)	9.4	15.4	16.1	10.8	8.6

Source: Company data, JM Financial. Note: Valuations as of 02/08/2011

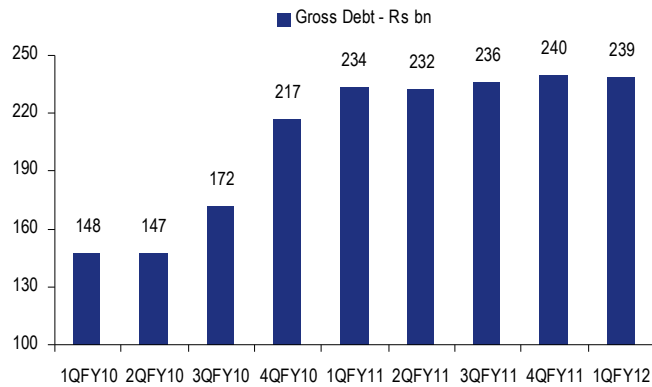
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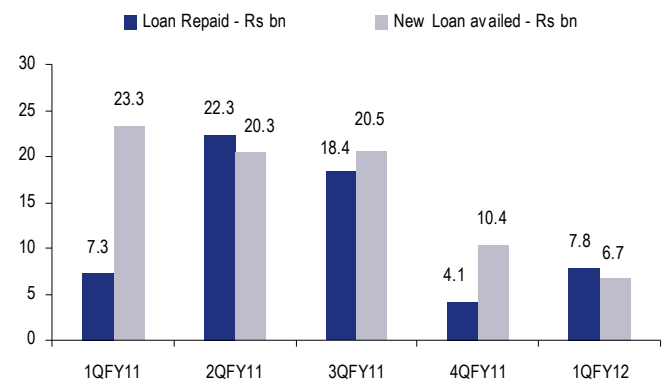
- **Conference call scheduled on Wednesday, 03 Aug 2011, 16:00hrs IST:**  
 Mumbai dial-in numbers are: +91 22 66293068/40392851. International dial-in numbers: **a)** USA (0630hrs) 1 866 746 2133, **b)** UK (1130hrs) 0 808 101 1573, **c)** Hong Kong (1830hrs) 800 964 448, **d)** Singapore (1830hrs) 800 101 2045.

**Exhibit 2. Trends in gross debt position (₹ bn)**



Source: Company, JM Financial

**Exhibit 3. Trends - debt repayments/new loan availed (₹ bn)**



Source: Company, JM Financial

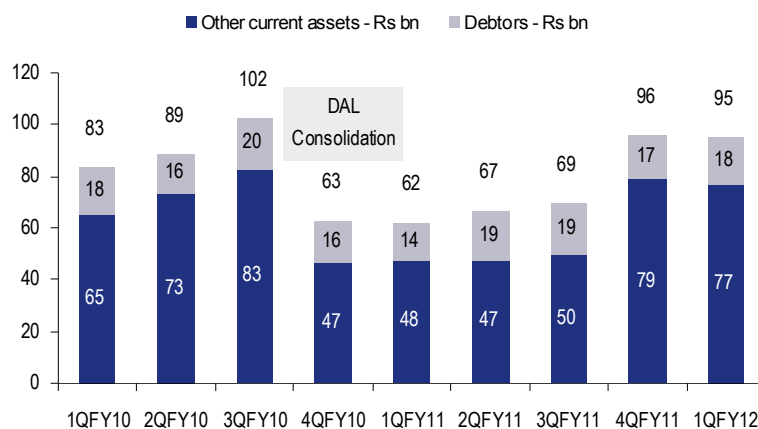
**Exhibit 4. Debt position (₹ mn)**

**Change in debt position**

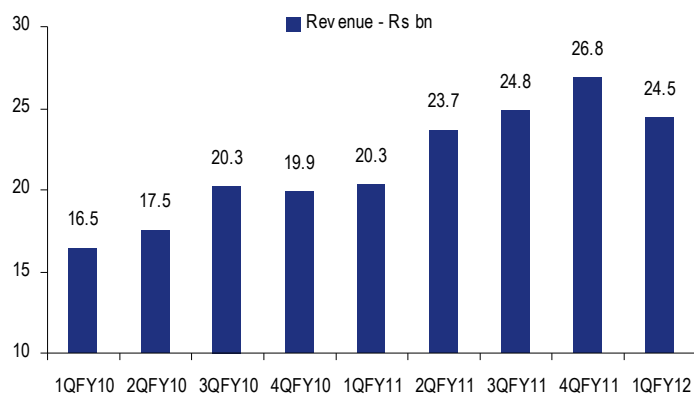
Gross debt - 1 <sup>st</sup> Apr 11	239,900
Paid during the quarter	7,810
New loan availed	6,670
Consolidation effect	-130
Gross debt - 30 <sup>th</sup> Jun 11	238,630

Source: Company, JM Financial

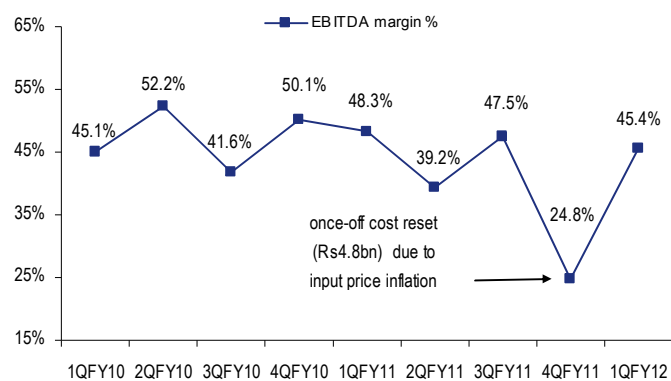
**Exhibit 5. Trends in receivables (₹ bn)**



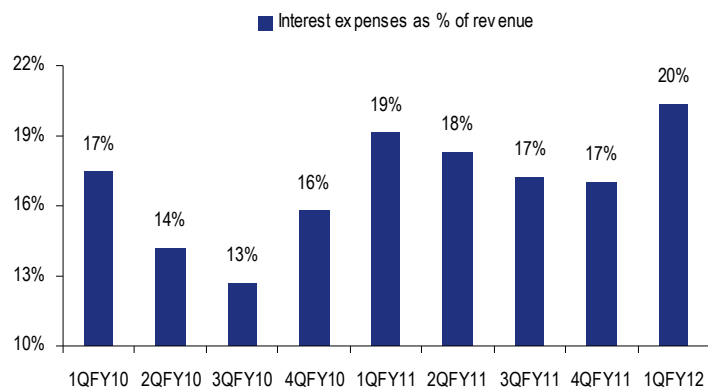
Source: Company, JM Financial; Note: >90% of other current assets comprises unbilled receivables

**Exhibit 6. Quarterly revenue trends****(₹ bn)**

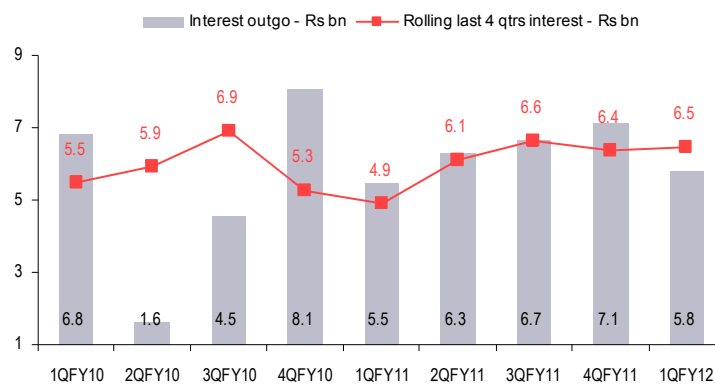
Source: Company, JM Financial

**Exhibit 7. Trends in EBITDA margin****(%)**

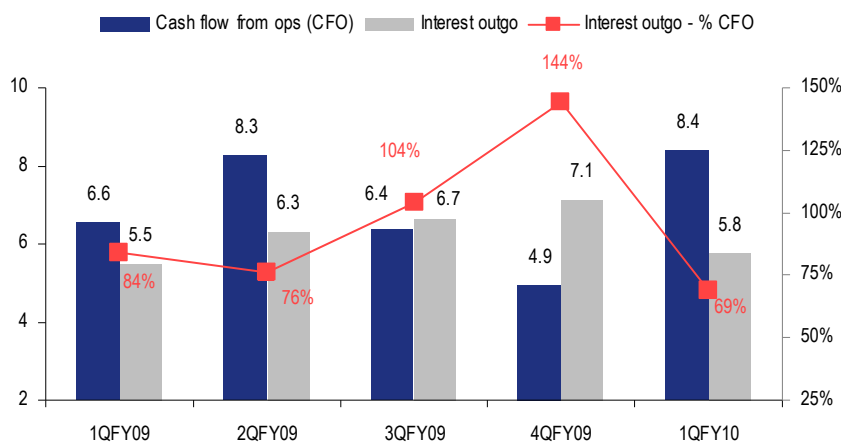
Source: Company, JM Financial

**Exhibit 8. Interest charge - as % of revenues****(%)**

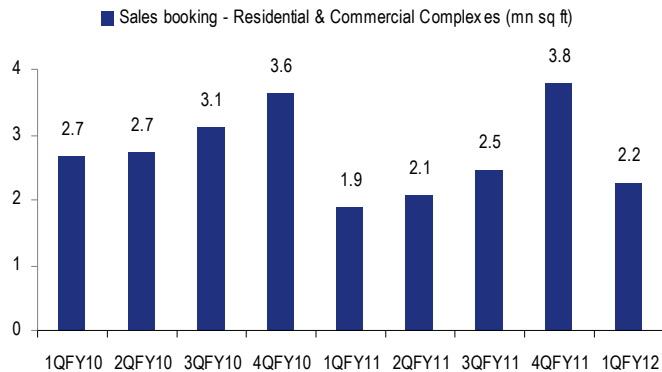
Source: Company, JM Financial; Note: Interest charged to P&amp;L net of capitalisation

**Exhibit 9. Interest outgo (in cash)****(₹ bn)**

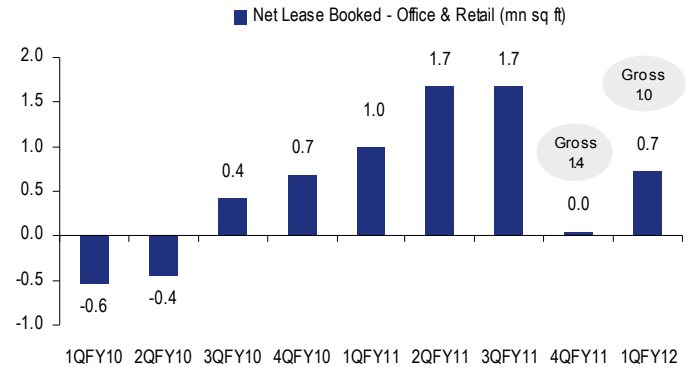
Source: Company, JM Financial

**Exhibit 10. Interest outgo vs. cashflow generation****(₹ bn)**

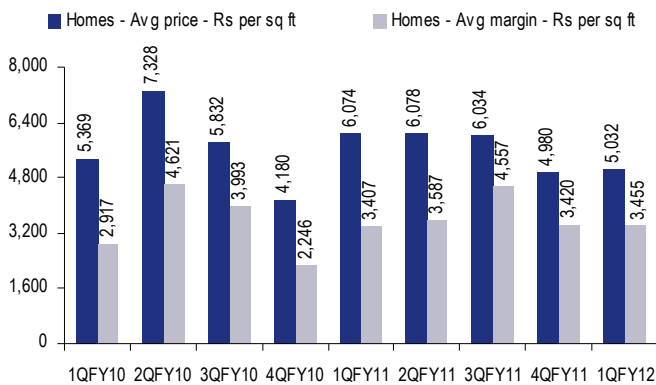
Source: Company, JM Financial.

**Exhibit 11. Quarterly bookings trends – Residential and Commercial Complexes (mn sq ft)**

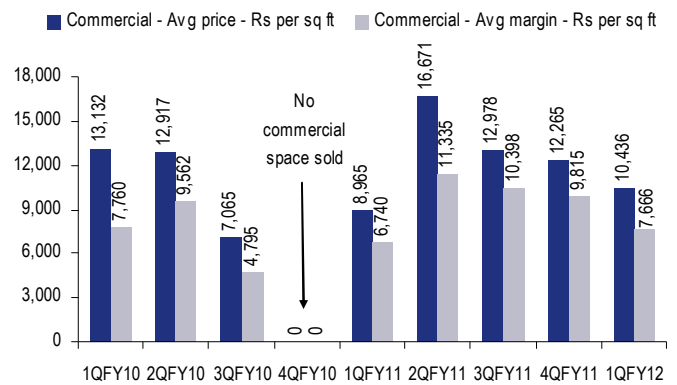
Source: Company, JM Financial

**Exhibit 12. Quarterly bookings trends – Office & Retail lease (mn sq ft)**

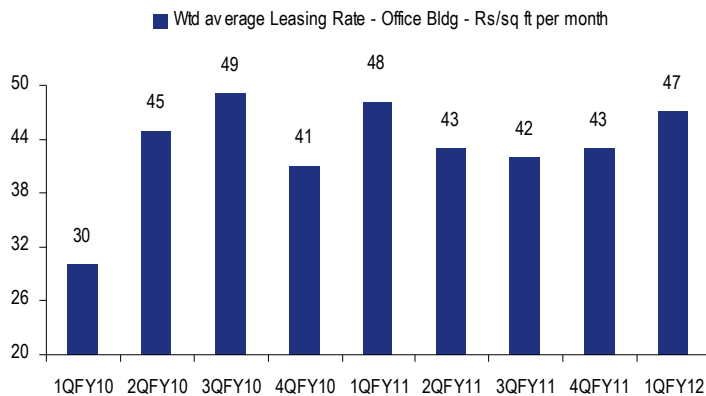
Source: Company, JM Financial

**Exhibit 13. 'Homes' price & margin trends (₹/sq ft)**

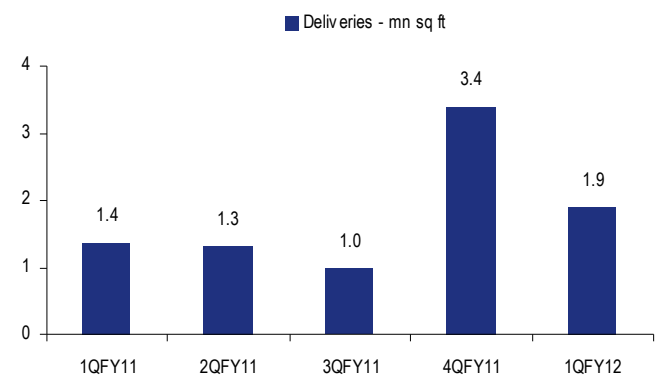
Source: Company, JM Financial

**Exhibit 14. 'Commercial' price & margin trends (₹/sq ft)**

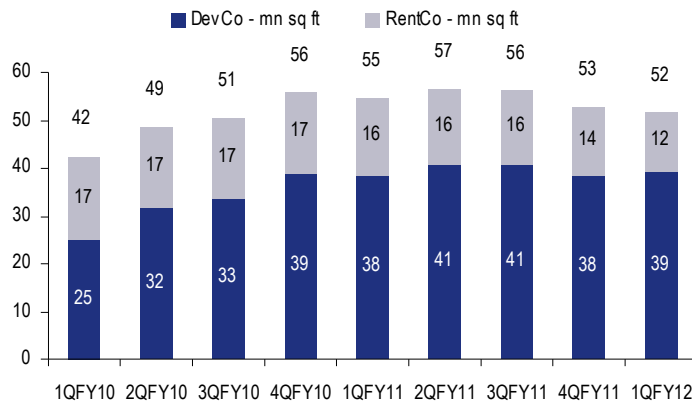
Source: Company, JM Financial

**Exhibit 15. Average leasing rate trends (₹/sq ft/month)**

Source: Company, JM Financial

**Exhibit 16. Deliveries (mn sq ft)**

Source: Company, JM Financial

**Exhibit 17. Area under construction****(mn sq ft)**

*Area under construction at Jun'11 comprises:*

*Super-metros 7mn sq ft*

*Gurgaon 21.5mn sq ft*

*Rest of India 10.5mn sq ft*

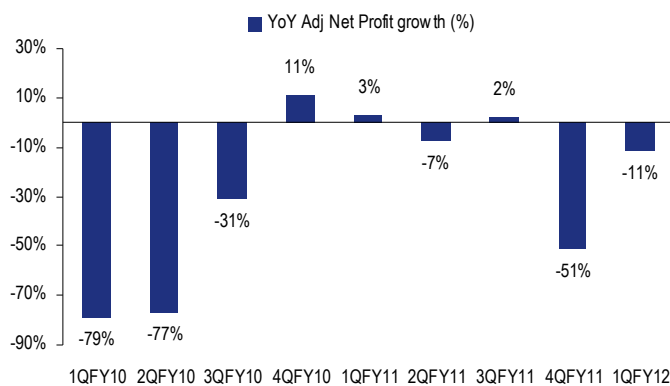
*Rental assets 13mn sq ft*

Source: Company, JM Financial

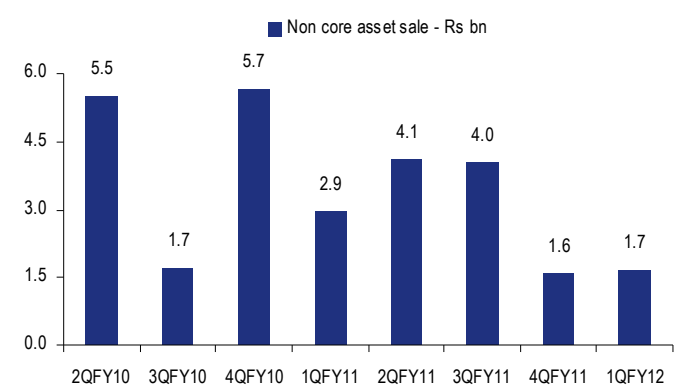
**Exhibit 18. Quarterly income statement****(₹ mn)**

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	YoY %	QoQ %
<b>Net sales</b>	<b>20,285</b>	<b>23,690</b>	<b>24,799</b>	<b>26,831</b>	<b>24,458</b>	21%	-9%
<b>EBITDA</b>	<b>9,796</b>	<b>9,289</b>	<b>11,780</b>	<b>6,662</b>	<b>11,110</b>	13%	67%
EBITDA (%)	48.3	39.2	47.5	24.8	45.4	-287 bps	2059 bps
Depreciation and amortisation	1,498	1,540	1,612	1,657	1,702	14%	3%
EBIT	8,298	7,749	10,168	5,005	9,408	13%	88%
Add: Net interest income	-2,563	-2,829	-3,134	-2,691	-4,390	71%	63%
Pre tax profit	5,734	4,920	7,034	2,314	5,018	-12%	117%
Taxes	1,679	734	2,026	156	1,278	-24%	722%
Effective Tax Rate (%)	29.3	14.9	28.8	6.7	25.5	-380 bps	1876 bps
Add: Extraordinary items	32	67	-65	937	-32	-198%	-103%
Less: Minority interest	-22	70	286	-349	124	-654%	-136%
Reported net profit	4,110	4,184	4,657	3,445	3,584	-13%	4%
<b>Adjusted net profit</b>	<b>4,078</b>	<b>4,117</b>	<b>4,722</b>	<b>2,508</b>	<b>3,615</b>	-11%	44%
Margin (%)	20.1	17.4	19.0	9.3	14.8	-532 bps	-807 bps

Source: Company, JM Financial

**Exhibit 19. Trends in net profit growth****(%)**

Source: Company, JM Financial

**Exhibit 20. Non-core asset sale****(₹ bn)**

Source: Company, JM Financial

**Exhibit 21. Balance sheet**

	(₹ mn)				
	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Share capital	3,395	3,395	3,395	3,395	3,395
Other capital	30,215	20,836	18,105	18,105	18,100
Reserves and surplus	237,360	242,324	244,060	241,820	245,100
Networth	270,970	266,555	265,560	263,320	266,595
Total loans	233,740	232,388	236,110	239,900	238,630
Minority interest	6,530	6,019	6,420	5,750	5,920
<b>Sources of funds</b>	<b>511,240</b>	<b>504,962</b>	<b>508,090</b>	<b>508,970</b>	<b>511,145</b>
Net block	179,830	181,489	184,430	295,680	299,170
Capital WIP	110,790	93,504	92,760	0	0
Investments	30,060	16,816	13,110	9,960	9,610
Def tax assets/(liability)	-2,970	774	820	1,630	1,255
Current assets	279,640	301,524	305,810	332,718	334,710
Inventories	130,960	143,974	147,850	150,390	152,610
Sundry debtors	14,390	19,177	19,460	17,260	18,180
Cash & bank balances	12,970	15,560	11,780	13,458	11,040
Other current assets	47,680	47,337	49,720	78,900	77,030
Loans & advances	73,640	75,477	77,000	72,710	75,850
Current liabilities & prov.	86,110	89,146	88,840	131,018	133,600
Current liabilities	50,590	51,622	53,020	92,254	94,260
Provisions and others	35,520	37,525	35,820	38,764	39,340
Net current assets	193,530	212,378	216,970	201,700	201,110
Others (net)	0	0	0	0	0
<b>Application of funds</b>	<b>511,240</b>	<b>504,962</b>	<b>508,090</b>	<b>508,970</b>	<b>511,145</b>

Source: Company, JM Financial

**Exhibit 22. Cash flow statement**

	(₹ mn)				
	1QFY10	2QFY11	3QFY11	4QFY11	1QFY12
Profit before tax	5,730	4,920	7,040	2,310	5,020
Depreciation and amort.	1,500	1,540	1,610	1,660	1,700
-Inc/dec in working cap.	-930	240	-4,470	500	-2,130
Others	250	1,550	2,200	470	3,780
<b>Cash from operations (a)</b>	<b>6,550</b>	<b>8,250</b>	<b>6,380</b>	<b>4,940</b>	<b>8,370</b>
-Inc/dec in investments	25,590	13,640	3,700	3,160	-760
Capex	-1,720	-80	-1,370	-3,940	-3,310
Others	1,230	220	560	630	1,110
<b>Cash from inv. (b)</b>	<b>25,100</b>	<b>13,780</b>	<b>2,890</b>	<b>-150</b>	<b>-2,960</b>
Inc/-dec in capital	-37,520	-11,310	-3,990	690	0
Dividend+Tax thereon	-2,070	-540	-6,060	-330	-720
Inc/-dec in loans	16,950	-1,300	3,690	3,800	-1,280
Others	-5,500	-6,300	-6,650	-7,130	-5,790
<b>Financial cash flow (c)</b>	<b>-28,140</b>	<b>-19,450</b>	<b>-13,010</b>	<b>-2,970</b>	<b>-7,790</b>
Inc/-dec in cash (a+b+c)	3,510	2,580	-3,740	1,820	-2,380
Opening cash balance	8,354	11,864	14,444	10,620	12,459
Closing cash balance*	12,970	15,560	11,780	13,458	11,040

(\*) Closing cash balance includes fixed deposit &amp; margin money

Source: Company, JM Financial

## Financial Tables (Consolidated)

Profit & Loss						(₹ mn)
Y/E March	FY09A	FY10A	FY11A	FY12E	FY13E	
Net sales (Net of excise)	100,354	74,229	95,606	112,593	132,858	
Growth (%)	-26.4	-26.0	28.8	17.8	18.0	
Other operational income	0	0	0	0	0	
Raw material (or COGS)	32,295	25,795	42,999	42,712	51,871	
Personnel cost	4,537	4,668	5,721	6,408	7,177	
Other expenses (or SG&A)	7,622	8,650	9,358	10,762	11,838	
<b>EBITDA</b>	<b>55,900</b>	<b>35,116</b>	<b>37,527</b>	<b>52,711</b>	<b>61,972</b>	
EBITDA (%)	55.7	47.3	39.3	46.8	46.6	
Growth (%)	-40.0	-37.2	6.9	40.5	17.6	
Other non-op. income	0	0	0	0	0	
Depreciation and amort.	2,390	3,249	6,307	6,902	7,719	
EBIT	53,511	31,866	31,219	45,809	54,253	
Add: Net interest income	-1,589	-6,820	-11,217	-14,853	-12,399	
Pre tax profit	51,922	25,046	20,002	30,956	41,854	
Taxes	6,754	7,022	4,594	8,049	10,882	
Add: Extraordinary items	14	-942	972	0	0	
Less: Minority interest	486	-116	-16	83	96	
Reported net profit	44,696	17,198	16,396	22,824	30,876	
<b>Adjusted net profit</b>	<b>44,682</b>	<b>18,140</b>	<b>15,424</b>	<b>22,824</b>	<b>30,876</b>	
Margin (%)	44.5	24.4	16.1	20.3	23.2	
Diluted share cap. (mn)	1,704	1,701	1,701	1,701	1,701	
<b>Diluted EPS (₹)</b>	<b>26.2</b>	<b>10.7</b>	<b>9.1</b>	<b>13.4</b>	<b>18.1</b>	
Growth (%)	-44.1	-59.3	-15.0	48.0	35.3	
Total Dividend + Tax	3,418	4,168	3,959	1,437	1,437	

Source: Company, JM Financial

Balance Sheet						(₹ mn)
Y/E March	FY09A	FY10A	FY11A	FY12E	FY13E	
Share capital	3,394	3,395	3,395	3,395	3,395	
Other capital	13,960	59,199	18,103	18,103	18,103	
Reserves and surplus	224,184	241,734	241,823	263,210	292,649	
Networth	241,538	304,327	263,321	284,708	314,147	
Total loans	163,201	216,766	239,903	229,903	214,903	
Minority interest	6,336	6,278	5,752	5,835	5,931	
<b>Sources of funds</b>	<b>411,076</b>	<b>527,371</b>	<b>508,976</b>	<b>520,446</b>	<b>534,981</b>	
Intangible assets	22,651	12,680	13,840	13,840	13,840	
Fixed assets	84,867	178,845	198,277	220,007	247,783	
Less: Depn. and amort.	5,743	13,265	19,556	26,458	34,176	
Net block	101,775	178,260	192,562	207,389	227,447	
Capital WIP	56,882	111,288	103,120	103,120	103,120	
Investments	14,025	55,052	9,958	9,958	9,958	
Def tax assets/- liability	414	-2,515	1,633	1,633	1,633	
Current assets	316,224	273,058	332,717	362,536	370,334	
Inventories	109,282	124,806	150,388	154,825	144,030	
Sundry debtors	21,648	16,190	17,257	30,083	30,345	
Cash & bank balances	11,956	9,282	13,461	40,316	58,647	
Other current assets	76,217	46,847	78,900	78,900	78,900	
Loans & advances	97,120	75,933	72,712	58,412	58,412	
Current liabilities & prov.	78,244	87,771	131,014	164,190	177,511	
Current liabilities	41,404	46,370	92,251	125,427	138,748	
Provisions and others	36,840	41,402	38,763	38,763	38,763	
Net current assets	237,980	185,286	201,703	198,346	192,823	
Others (net)	0	0	0	0	0	
<b>Application of funds</b>	<b>411,076</b>	<b>527,371</b>	<b>508,976</b>	<b>520,446</b>	<b>534,981</b>	

Source: Company, JM Financial

Cash flow statement						(₹ mn)
Y/E March	FY09A	FY10A	FY11A	FY12E	FY13E	
Reported net profit	44,696	17,198	16,396	22,824	30,876	
Depreciation and amort.	2,308	7,522	6,292	6,902	7,719	
-Inc/dec in working cap.	-18,525	-5,100	19,231	15,913	10,533	
Others	2,442	-59	-526	83	96	
<b>Cash from operations (a)</b>	<b>30,920</b>	<b>19,562</b>	<b>41,394</b>	<b>45,722</b>	<b>49,224</b>	
-Inc/dec in investments	-4,923	-41,027	45,094	0	0	
Capex	-40,003	-138,413	-12,425	-21,730	-27,776	
Others	-35,760	55,120	-31,470	14,300	13,321	
<b>Cash flow from inv. (b)</b>	<b>-80,686</b>	<b>-124,320</b>	<b>1,199</b>	<b>-7,430</b>	<b>-14,455</b>	
Inc/-dec in capital	3,377	49,759	-53,443	0	0	
Dividend+Tax thereon	-3,418	-4,168	-3,959	-1,437	-1,437	
Inc/-dec in loans	41,114	53,565	23,136	-10,000	-15,000	
Others	-773	2,929	-4,148	0	0	
<b>Financial cash flow (c)</b>	<b>40,300</b>	<b>102,085</b>	<b>-38,414</b>	<b>-11,437</b>	<b>-16,437</b>	
Inc/-dec in cash (a+b+c)	-9,465	-2,674	4,178	26,855	18,331	
Opening cash balance	21,421	11,956	9,282	13,461	40,316	
Closing cash balance	11,956	9,282	13,461	40,316	58,647	

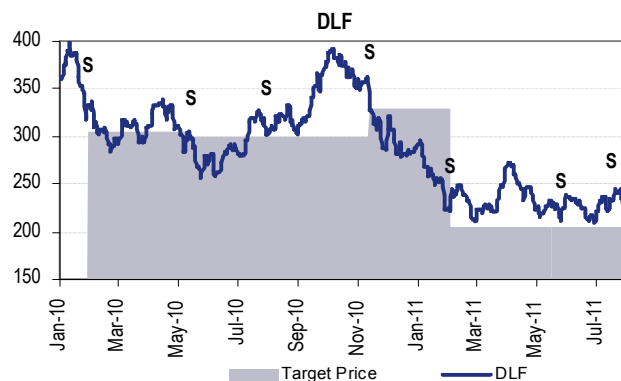
Source: Company, JM Financial

Key Ratios					
Y/E March	FY09A	FY10A	FY11A	FY12E	FY13E
BV/Share (₹)	141.8	179.3	155.1	167.7	185.1
ROCE (%)	13.3	5.1	4.8	7.0	8.5
ROE (%)	20.4	6.6	5.4	8.3	10.3
Net Debt/equity ratio (x)	0.6	0.5	0.8	0.6	0.5
<b>Valuation ratios (x)</b>					
PER	8.7	21.4	25.1	17.0	12.6
PBV	1.6	1.3	1.5	1.4	1.2
EV/EBITDA	9.4	15.4	16.1	10.8	8.6
EV/Sales	5.2	7.3	6.3	5.0	4.0
<b>Turnover ratios (no.)</b>					
Debtor days	79	80	66	98	83
Inventory days	397	614	574	502	396
Creditor days	468	656	783	1,072	883

Source: Company, JM Financial

**History of earnings estimates and target price**

Date	FY12E EPS (Rs)	% Chg.	FY13E EPS (Rs)	% Chg.	Target Price	Target Date	% Chg.
29-Jan-10	18.3				305	Mar-11	
14-May-10	21.0	14.8			300	Mar-11	-1.6
29-Jul-10	20.8	-1.0			300	Mar-11	0.0
11-Nov-10	21.0	1.0	26.0		330	Sep-11	10.0
2-Feb-11	14.4	-31.4	17.8	-31.5	205	Dec-11	-37.9
25-May-11	14.6	1.4	21.9	23.0	205	Mar-12	0.0
15-Jul-11	14.7	0.7	21.9	0.0	205	Mar-12	0.0

**Recommendation history****JM Financial Institutional Securities Private Limited**

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