

November 11, 2011

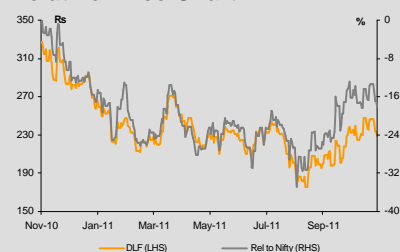
Reco	Previous Reco
Reduce	Reduce
CMP	Target Price
Rs 228	Rs 220
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,169
Sensex	17,193

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	11	(2)	(34)
Rel. to Nifty	(5)	10	5	(21)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Real Estate
Bloomberg	DLFU@IN
Equity Capital (Rs mn)	3396
Face Value(Rs)	2
No of shares o/s (mn)	1698
52 Week H/L	361/173
Market Cap (Rs bn/USD mn)	388/7,728
Daily Avg Volume (No of sh)	7793872
Daily Avg Turnover (US\$m)	32.6

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	78.6	78.6	78.6
FII/NRI	15.7	15.1	15.9
Institutions	0.4	0.4	0.4
Private Corp	1.1	1.5	1.3
Public	4.2	4.4	3.8

Source: Capitaline

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- **With Core side of the business lagging, Non-Core Asset sale become the core focus to generate cash and reduce debt which increased by Rs 10bn to Rs 225bn at net level**
- **Operating Cashflows plummets from Rs 8.37bn to Rs 2.76bn on QoQ; company is not able to meet interest cost outflow (Rs 6.9bn in Q2FY12) from core business cash inflow**
- **Sales bookings of 1.28 msf in Q2FY12 with no new launches in the quarter. We continue to believe that the company will fail to meet its sales booking target of 10-12 msf in FY12**
- **We maintain our Reduce rating with TP of Rs 220. We also maintain our sales booking target of 7.4msf for FY12E for total value of Rs 32.6bn**

Revenue in-line with estimates, EBITDA and PAT above estimates due to higher margin from booking of Land sale

DLF reported revenue of Rs 25.3bn in Q2FY12 which was 1.4% above our estimate and grew by 6.9% YoY. EBITDA at Rs 11.7bn was 6.1% above our estimate predominantly due to higher margin on the land sale booking of 2.8msf in Gurgaon. PAT stood at Rs 3.7bn which was 8.4% above our estimate. Company has annuity income of Rs 4.8bn with Rs 3.9bn came from office and retail space rentals

Disappointing Operating Cash Flows despite of increase in annuity income and cash inflow from land sale

DLF Operating Cash Inflow fell to Rs 2.76bn in the quarter due to sharp increase in the working capital requirement. To meet its capital servicing obligations (interest and dividend), company borrowed additional net debt of Rs 8.5bn which increase to Rs 225bn. Company has cited slowdown in launches due to tough regulatory environment and slowdown in construction due to labour shortage as the key reason to bulging working capital

Non-core asset sale trajectory picks up. Realised Rs 2.1bn in Q2FY12 and expects another Rs 30bn+ from the on-going transactions

Company sold 2.9msf of FSI in Gurgaon for Rs 6.1bn, of which it received Rs 2.1bn in Q2FY12. The company aims to close the IT Park, Noida and IT SEZ, Pune deal in Q3FY12 and sale of Aman Resorts in the near future. Company expects cash inflow of Rs 30bn from these transactions. We believe these estimates are gross cash flow, while net of tax would be 10-15% lower

Sales Bookings lowest since listing in- terms of volume as well as value; new leases of 0.2msf too lowest at net level

On the back of no new launches, the company sold just 1.28msf in the quarter for average realizable rate of Rs 4147 / sf which also lowest over last 10 quarters. In H1FY12, company sold total of 3.53msf for Rs 15.8bn. We maintain our target sales bookings of 7.4 msf for total value of Rs 32.6bn. On Rent Co. side too company performed badly with net leased space of just 0.2msf against 0.7 msf in Q1FY12

Financials

(Rs Mn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY10	74,229	35,116	47.3	17,198	10.7	(59.4)	6.3	19.8	16.1	1.5
FY11	95,610	37,801	39.5	16,671	9.3	(13.3)	5.9	22.8	15.5	1.5
FY12E	100,672	45,182	44.9	15,287	9.0	(2.8)	5.7	23.4	12.9	1.4
FY13E	103,747	47,723	46.0	17,051	10.0	11.5	6.1	21.0	11.9	1.3

DLF plans to launch 6.5-7.5 msf in H2 FY12, our estimation values the same at ~Rs 28 bn,

We believe that most of the projects the company plans to launch would be successful considering that they are next phases of the already successful projects as well as good location for Gurgaon-based projects.

Project 1: DLF Maiden Heights, Rajapura, Bangalore

DLF launched a new residential project in Bangalore comprising of 696 apartments with total saleable area of ~0.7msf over 8.9 acres of land. The project is positioned as value homes with a price of Rs 3000 / sf. The project is located in Rajapura area which is ~2.5 kms south of Electronics City, South Bangalore. We believe that project would get good response considering its location which is closer to IT hub and starting ticket size of Rs 25-30 lakhs. The project is very close to company's on-going project in BTM layout, Bangalore - DLF Westend Heights.

Project 2: DLF Hyde Park 2, Mullanpur, New Chandigarh

DLF will be launching phase 2 of its Hyde Park project comprising of total 1.0msf in plotted development. The project's phase 1 launched in March 2011, comprising of 600 plots totaling to 2.16msf, had got good response. The avg. realisation of Phase was ~Rs 2550 / sf with exit realisation of Rs 2750 / sf. We believe the company would launch the same at around Rs 2850 / sf and would get good response considering the success of phase 1

Project 3: DLF Garden City, Lucknow

DLF is leveraging the success of its Garden City brand to another tier-2 city - Lucknow. The company plans to launch its maiden project in the city with plotted development 1.0msf. Company's similar project in Indore had received a good response in Phase 1 and lacked lustre in Phase 2. We believe, here too, the Phase 1 would be successful.

Project 4: DLF Valley 4, Panchkula

DLF will also launch phase 4 of its very successful project in Panchkula. All the previous 3 phases comprising of ~ 3.2msf are sold out. The company is planning to launch another 1.0-1.5 msf at an avg. realisable rate of Rs2250 / sf. On the back success of previous phases, this phase has higher chances of strong bookings

Project 5: Group Housing, Gurgaon

Company is planning to launch a mid-income group housing project in New Gurgaon. The saleable area should be anywhere between 1.5-2.0 msf with total realizable rate of Rs 6500 / sf. The project is location on Delhi-Jaipur highway and hence will receive good response. We believe the project is scheduled to be developed over next 36 months

Key Financials – Quarterly (Consolidated)

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12E	YoY (%)	QoQ (%)	YTD FY12	YTD FY11	YoY (%)
Revenue	20,290	23,690	24,799	26,831	24,458	25,324	6.9	3.5	24,458	20,290	20.5
Expenditure	10,490	14,131	13,020	20,169	13,349	13,594	(3.8)	1.8	13,349	10,490	27.2
<i>as % of sales</i>	<i>51.7</i>	<i>59.6</i>	<i>52.5</i>	<i>75.2</i>	<i>54.6</i>	<i>53.7</i>			<i>54.6</i>	<i>51.7</i>	
Cost of Sales	7,340	10,142	9,526	15,995	9,422	9,466	(6.7)	0.5	9,422	7,340	28.4
<i>as % of sales</i>	<i>36.2</i>	<i>42.8</i>	<i>38.4</i>	<i>59.6</i>	<i>38.5</i>	<i>37.4</i>			<i>38.5</i>	<i>36.2</i>	
Employee Cost	1,290	1,622	1,338	1,472	1,456	1,539	(5.1)	5.7	1,456	1,290	12.9
<i>as % of sales</i>	<i>6.4</i>	<i>6.8</i>	<i>5.4</i>	<i>5.5</i>	<i>6.0</i>	<i>6.1</i>			<i>6.0</i>	<i>6.4</i>	
Other expenditure	1,860	2,368	2,156	2,703	2,470	2,589	9.4	4.8	2,470	1,860	32.8
<i>as % of sales</i>	<i>9.2</i>	<i>10.0</i>	<i>8.7</i>	<i>10.1</i>	<i>10.1</i>	<i>10.2</i>			<i>10.1</i>	<i>9.2</i>	
EBITDA	9,800	9,559	11,780	6,662	11,110	11,730	22.7	5.6	11,110	9,800	13.4
Depreciation	1,500	1,540	1,612	1,657	1,702	1,753	13.9	3.0	1,702	1,500	13.5
EBIT	8,300	8,019	10,168	5,005	9,408	9,977	24.4	6.0	9,408	8,300	13.3
Other Income	1,320	1,509	1,143	1,866	574	448	(70.3)	(22.1)	574	1,320	(56.5)
Interest	3880	4338	4272	4557	4964	5263	21.3	6.0	4,964	3,880	27.9
PBT	5,740	5,190	7,039	2,314	5,018	5,161	(0.6)	2.9	5,018	5,740	(12.6)
Total Tax	1,650	734	2,026	156	1,278	1,475			1,278	1,650	
Adjusted PAT	4,090	4,456	5,013	2,159	3,739	3,686	(17.3)	(1.4)	3,739	4,090	(8.6)
(Profit)/loss from JV's/Ass/MI	-20	69	284	-349	32	5			32	-20	
APAT after MI	4,110	4,387	4,729	2,508	3,708	3,682	(16.1)	(0.7)	3,708	4,110	(9.8)
Extra ordinary items	0	0	0	937	-166	42			-166	0	
Reported PAT	4,110	4,387	4,729	3,445	3,542	3,724	(15.1)	5.1	3,542	4,110	(13.8)
Reported EPS	2.4	2.6	2.8	2.0	2.1	2.2			9.8	10.3	

Margins (%)							(bps)	(bps)			(bps)
EBIDTA	48.3	40.4	47.5	24.8	45.4	46.3	597	90	45.4	48.3	-288
EBIT	40.9	33.9	41.0	18.7	38.5	39.4	554	93	38.5	40.9	-244
EBT	28.3	21.9	28.4	8.6	20.5	20.4	(153)	-14	20.5	28.3	-777
PAT	20.3	18.5	19.1	9.3	15.2	14.5	(398)	-62	15.3	20.2	-487
Effective Tax rate	28.7	14.1	28.8	6.7	25.5	28.6	1,443.3	309.9	25.8	42.5	-1677

Financials (consolidated)

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Revenue	74229	95610	101098	104049
<i>Growth (%)</i>	(26.0)	28.8	5.7	2.9
Expenditure	39113	57810	59377	61226
Cost of Sales	25795	43003	44569	44702
Employee Cost	4668	5721	6457	6679
Other Exp	8650	9086	8351	9845
EBITDA	35116	37801	41720	42823
<i>Growth (%)</i>	(37.2)	7.6	10.4	2.6
EBITDA margin (%)	47.3	39.5	41.3	41.2
Depreciation	3249	6309	6759	6343
EBIT	31867	31492	34961	36480
EBIT margin (%)	42.9	32.9	34.6	35.1
Other Income	4280	5838	3625	3625
Interest expenses	11100	17047	17882	17127
PBT	25046	20283	20704	22978
Tax	7023	4566	5154	5187
<i>Effective tax rate (%)</i>	28.0	22.5	24.9	22.6
Adjusted PAT	18024	15718	15550	17790
<i>Growth (%)</i>	(60.1)	(12.8)	(1.1)	14.4
Net Margin (%)	24	16	15	17
(Profit)/loss from JVs/Ass/MI	(116)	(16)	0	0
Adjusted PAT After JVs/Ass/MI	18140	15734	15550	17790
E/O items	(942)	937	0	0
Reported PAT	17198	16671	15550	17790
<i>Growth (%)</i>	(61.5)	(3.1)	(6.7)	14.4

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	16432	11426	13107	15381
Depreciation	3249	6309	6759	6343
Interest Provided	11100	17047	17882	17127
Other Non-Cash items	0	0	0	0
Chg in Working Cap	50020	(12239)	(15177)	(253)
Tax paid	(7023)	(4566)	(5154)	(5187)
Operating Cashflow	73779	17977	17417	33411
Capital expenditure	134141	12443	2000	2000
Free Cash Flow	(60361)	5534	15417	31411
Other income	4280	5838	3625	3625
Investments	(41027)	45094	0	0
Investing Cashflow	(36747)	50932	3625	3625
Equity Capital Raised	45591	(57677)	(5412)	(5412)
Loans Taken / (Repaid)	53565	23136	(2942)	(17193)
Interest Paid	(11100)	(17047)	(17882)	(17127)
Dividend paid (incl tax)	3509	3973	3972	3972
Income from investments	0	0	0	0
Others	2870	(4673)	1149	1078
Financing Cashflow	94434	(52288)	(21115)	(34682)
Net chg in cash	(2674)	4179	(2073)	355
Opening cash position	11956	9282	13461	11388
Closing cash position	9282	13461	11388	11742

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	62,593	21,498	21,498	21,498
Reserves & surplus	241,734	241,823	251,961	264,340
Net worth	304,327	263,321	273,459	285,837
Minority Interest	6,278	5,752	5,752	5,752
Secured Loans	193,016	239,903	213,210	196,018
Unsecured Loans	23,751	0	23,751	23,751
Loan Funds	216,766	239,903	236,961	219,768
Net deferred tax liability	2,515	(1,633)	(484)	595
Total Liabilities	529,886	507,343	515,688	511,952
Gross Block	178,845	179,737	180,737	181,737
Less: Depreciation	13,265	19,572	26,331	32,674
Net block	165,580	160,165	154,406	149,063
Capital work in progress	111,288	121,677	122,677	123,677
Goodwill	12,680	13,840	13,840	13,840
Investment	55,052	9,958	9,958	9,958
Current Assets	273,058	332,717	298,648	303,032
Inventories	124,806	150,388	145,907	145,092
Sundry debtors	16,190	17,257	16,512	17,078
Cash & bank balance	9,282	13,461	11,387	11,742
Loans & advances	75,933	72,712	68,878	71,239
Other current assets	46,847	78,900	55,964	57,882
Current lia & Prov	87,771	131,014	83,841	87,618
Current liabilities	46,370	92,251	47,429	49,206
Provisions	41,402	38,764	36,412	38,412
Net current assets	185,286	201,703	214,807	215,414
Total Assets	529,886	507,343	515,688	511,952

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	47.3	39.5	41.3	41.2
Net Margin	24.3	16.4	15.4	17.1
ROCE	6.8	6.1	6.8	7.1
ROE	6.3	5.9	5.8	6.4
RoIC	9.3	8.8	9.5	9.9
Per Share Data (Rs)				
EPS	10.7	9.3	9.2	10.5
CEPS	12.0	13.5	13.1	14.2
BVPS	144.4	144.4	150.4	157.7
DPS	2.0	2.0	2.0	2.0
Valuations (x)				
PER	21.3	24.6	24.9	21.8
P/CEPS	18.9	16.8	17.4	16.0
P/BV	1.6	1.6	1.5	1.4
EV / Sales	8.1	6.6	6.2	5.8
EV / EBITDA	16.9	16.2	14.7	13.9
Dividend Yield (%)	0.9	0.9	0.9	0.9
Gearing Ratio (x)				
Net Debt/ Equity	0.7	0.9	0.8	0.7
Net Debt/EBIDTA	0.6	0.8	0.7	0.6

Recommendation History: DLF – DLFU IN

Date	Reports	Reco	CMP	Target
04/08/2011	DLF Q1FY12 Result Update	Reduce	223	220
30/06/2011	DLF Company Update	Reduce	211	203
25/05/2011	DLF Q4FY11 Result Update	Not Rated	210	Not Rated

Recent Research Reports

Date	Reports	Reco	CMP	Target
17/10/2011	Oberoi Realty Q2FY12 Result Update	Accumulate	235	275
11/08/2011	Arshiya International Q1FY12 Result Update	Not Rated	140	Not Rated
02/08/2011	Phoenix Mills Q1FY12 Result Update	Accumulate	214	231
10/05/2011	Godrej Properties Q4FY11 Result Update	Not Rated	706	Not Rated

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