

**RESULTS FIRST LOOK**

DLF reported its 2QFY12F results today. The P&L was slightly better than expected, but as the market is focussed on the balance sheet in the current scenario, an increase in the gearing level q-q from 0.85x to 0.88x along with lower sales and slow leasing momentum will likely not be read positively by the market. We expect a negative reaction to these headline numbers, but given management has been able to build an asset sale pipeline that will help in debt reduction in FY12; we would be buyers into the stock on correction.

Price target: 270.0 INR

Price (09 Nov 2011): 233.3 INR

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**2QFY12 results: P&L slightly above expectations; gearing rose, but debt reduction in FY12**

- Earnings vs. our Forecast: **ABOVE**

**Likely Impact:**

- Earnings Estimates: **NO CHANGE**
- Dividend Estimates: **NO CHANGE**
- Price Target: **NO CHANGE**
- Long-term View: **CONFIRMED**

**Profit & Loss: slightly above expectation**

1. Net sales at INR25.3bn (+7% y-y & 4%q-q) came in slightly above our and the consensus estimate of INR22.8bn and INR 24.2bn, respectively.
2. Other income dropped -22%q-q from INR 574mn to INR 448mn and came in below our estimate of INR 805mn.
3. The EBITDA margin remained stable q-q at 47.3% (vs. 46.7% in 1QFY12 vs. 42.8% in 2QFY11), and was in line with our estimate. Overall, EBITDA at INR c.12.2bn (+13%y-y & +4%q-q) was 9% higher than our expectation on account of a better top line.
4. Owing to an increase in the company's gearing, interest expense rose +21%y-y & 6%q-q to INR 5.26bn vs. our estimate of INR 4.98bn.
5. PAT at INR3.72bn (-11%y-y & +4%q-q) was in line with the consensus estimate of INR3.63bn, but was slightly above our estimate of INR3.25bn on account of higher-than-expected revenue, but this was partially offset by higher interest outgo.

**Balance sheet and cash flow: Gearing rose to 0.88x owing to higher tax & dividend payment**

6. On the balance sheet side, net debt rose by around c.10bn to INR237bn in 2QFY12 from INR227bn in 1QFY12. As a result, net debt:equity has now increased to 0.88x from 0.85x in the previous quarter.
7. In the previous quarter (1QFY12), the company managed to keep its gearing stable as net cash generated from operations was able to cover its capital expenditure on constructional activity plus interest expense. In 2QFY12, owing to lower sales achieved (1.28mn sq ft vs. 2.2mn sq ft in 1QFY12) coupled with higher tax outgo of c.INR3.9bn (vs INR0.8bn in 1QFY12), and payment of an annual dividend to shareholders (INR 4.29bn), resulted in an increase in overall gearing level for the company.
8. We expect that the company will be able to monetize some of its non-core assets and some leased office spaces in

FY12, which should help bring down its gross debt, reducing interest cost too in the process. This would further release more operating cash flow. *Please see exhibit 4 for more details on asset sale status.*

### Operational performance—Lower sales and leasing momentum

9. The impact from no significant new launches was seen during the quarter as the company could only sell 1.28mn sq ft vs. 2.2mn sq ft in 1QFY12. In 2QFY12, sale of 1.28mn sq ft included sale of 0.6mn sq ft through plots in Gurgaon and Indore (vs. 1.3mn sq ft in plots in Gurgaon and Indore in 1QFY12), and 0.7mn sq ft of mid income homes (vs. 0.9mn sq ft in 1QFY12).
10. On the leasing front, the company could only achieve net leasing of 0.21 mn sq ft vs. 0.73mn sq ft in 1QFY12.
11. Having achieved cumulative net leasing of around 0.94 mn sq ft for 1HFY12, it appears the company may not be able to achieve its full-year leasing guidance of around 2.5-3.0mn sq ft. It has also reduced its construction spending on commercial buildings to conserve cash. Rental income from leased office and retail space increased marginally q-q from INR 3.65bn in 1QFY12 to INR 3.92bn.
12. The company delivered 0.20mn sq ft during the quarter and believes it is on track to deliver > 12mn sq ft of homes and offices during the year, which should help ease the burden on the balance sheet as cash flows in from unbilled receivables.

Slowing sales and lower leasing achieved during the quarter along with increase in gearing will likely not be read positively by the market. The company though expects that a reduction of INR30 bn in debt would take place in FY12 as sale of non-core assets is likely to close in 3QFY12 and 4QFY12. We expect a slightly negative reaction to these results. But given the asset sale pipeline and likely reduction of debt in FY12, we would be buyers into the correction.

### Exhibit 1: Snapshot of 2QFY12 results

Profit & Loss	2QFY12A	1QFY12A	QoQ growth(%)	2QFY11A	YoY growth (%)	2QFY12E
Sales	25,324	24,458	4%	23,690	7%	22,876
Other income	448	574	-22%	1,509	-70%	805
<b>Total income</b>	<b>25,772</b>	<b>25,032</b>	<b>3%</b>	<b>25,199</b>	<b>2%</b>	<b>23,681</b>
Construction cost	9,466	9,422	0%	10,142	-7%	8,617
Staff cost	1,539	1,456	6%	1,622	-5%	1,486
Others	2,589	2,470	5%	2,638	-2%	2,400
<b>Total expenditure</b>	<b>13,594</b>	<b>13,349</b>	<b>2%</b>	<b>14,401</b>	<b>-6%</b>	<b>12,503</b>
<b>EBITDA</b>	<b>12,177</b>	<b>11,684</b>	<b>4%</b>	<b>10,798</b>	<b>13%</b>	<b>11,178</b>
<i>EBITDA margin</i>	<i>47.3%</i>	<i>46.7%</i>	<i>1%</i>	<i>42.8%</i>	<i>4%</i>	<i>47.2%</i>
Interest	5,263	4,964	6%	4,338	21%	4,984
Depreciation	1,753	1,702	3%	1,540	14%	1,734
<b>PBT</b>	<b>5,161</b>	<b>5,018</b>	<b>3%</b>	<b>4,920</b>	<b>5%</b>	<b>4,460</b>
Tax	1,475	1,278	15%	734	101%	1,113
<b>PAT</b>	<b>3,686</b>	<b>3,739</b>	<b>-1%</b>	<b>4,186</b>	<b>-12%</b>	<b>3,347</b>
MI+associates	-4	-124		(70)		-100
Prior period items	42	-32		67		
<b>Net profit</b>	<b>3,724</b>	<b>3,584</b>	<b>4%</b>	<b>4,184</b>	<b>-11%</b>	<b>3,247</b>
<i>PAT margin</i>	<i>14.5%</i>	<i>14.3%</i>	<i>0%</i>	<i>16.6%</i>	<i>-2%</i>	<i>13.7%</i>
<i>Tax rate</i>	<i>28.6%</i>	<i>25.5%</i>	<i>3%</i>	<i>14.9%</i>	<i>14%</i>	<i>25.0%</i>

Source: Company data, Nomura estimates

### Exhibit 2: Snapshot of balance sheet

Balance sheet (INR mn)	2QFY12	1QFY12
Equity	270,224	266,600
Loan funds	254,498	238,630
<b>Total source fund</b>	<b>530,883</b>	<b>511,150</b>
<b>Application of funds</b>		
Fixed assets (Including CWIP)	285,070	284,110
Goodwill on consolidation	15,086	15,060

Investments	15,039	9,610
Deferred Tax Assets	1,469	1,260
<b>Current assets</b>		
Stock	152,338	152,610
Sundry debtors	19,540	18,180
Cash and bank balances	11,820	11,040
Loans and advances	80,572	75,850
Other Current Assets	79,361	77,030
<b>Current liabilities</b>		
Liabilities	91,049	94,260
Provisions	38,365	39,340
<b>Net current assets</b>	<b>214,218</b>	<b>201,110</b>
<b>Total</b>	<b>530,883</b>	<b>511,150</b>
<b>Net debt</b>	<b>236,868</b>	<b>226,850</b>
<b>Net debt/ equity</b>	<b>0.88</b>	<b>0.85</b>

Source: Company data, Nomura estimates

### Exhibit 3: Snapshot of operational performance

Performance snapshot (Development)					
	2QFY12	1QFY12	4QFY11	3QFY11	2QFY11
<b>Sales booked ( in mn sf)</b>					
Total	1.28	2.2	3.8	2.5	2.08
<b>Construction progress (in mn sf)</b>					
New launches	0.2	0.0	0.86	0.0	2.37
<b>Wt Avg sales rate (INR / psf)</b>					
Residential	4,147	5,032	4,980	6,034	6,078
Commercial	13,286	10,436	12,265	12,978	16,671
Performance snapshot (Rental)					
<b>Leasing progress (in mn sf)</b>					
New signing	0.66	0.97	1.38	1.97	2.01
Cancelled	-0.45	-0.24	-1.34	-0.29	-0.33
<b>Net leases</b>	<b>0.21</b>	<b>0.73</b>	<b>0.04</b>	<b>1.68</b>	<b>1.68</b>
<b>Construction progress (in mn sf)</b>					
Commercial project ( new launch)	0	-0.15	0.0	0.93	0.85
Execution (in mn sf)					
	2QFY12	1QFY12	4QFY11	3QFY11	2QFY11
Gurgaon	21.5	21.5	21	22	22
Super Metro	8	7	7	7	7
Rest of India	11	10.5	10	11	12
Project for leasing	12.5	13	15	16	16
<b>Total</b>	<b>53</b>	<b>52</b>	<b>53</b>	<b>56</b>	<b>56</b>
Gurgaon as % of total	41%	41%	40%	39%	39%
Divestment achieved (INR mn)					
	2QFY12	1QFY12	4QFY11	3QFY11	2QFY11
	2,450	1,650	NA	NA	4,130

Source: Company data, Nomura research

### Exhibit 4: Snapshot of asset sales

Asset	City	Expected cash inflow (INR bn)	Buyer	Status
28-acre plot	Gurgaon	4.4	M3M	Completed

Plot	Gurgaon	1.75	Private	Completed
IT/ ITeS SEZ Park	Pune	9.5	Blackstone	Expected completion in 3QFY12
IT Park	Noida	4.2	IDFC	Expected completion in 3QFY12
Aman resorts	-	21.4	5 bids	Under negotiation, 4 bids received
<b>Total (INR bn)</b>		<b>41</b>		

Source: Company data, Nomura estimates

**Valuation Methodology and Investment Risks:** Valuation Methodology and Investment Risks: We value DLF Ltd using a net asset value (NAV) methodology, which is a DCF valuation of the development potential of the company's land reserves and developed property. We do not attach any premium or discount to this NAV to arrive at our target price. Our target price of INR270 is based on INR219 for the land bank NAV, INR29 for noncore assets and land, and INR21 for its 57% stake in DLF Cyber City Developers Ltd(DCCDL). Downside risks include 1) further rapid increases in interest rates; 2) below-expectation growth in the economy; 3) execution lagging expectations; 4) a credit crunch-like environment resulting in developers being unable to refinance their debt; 5) equity dilution to repay debt; and 6) inability to sell noncore assets.

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Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
DLF	DLFU IN	233.3 INR	09 Nov 2011	Buy	

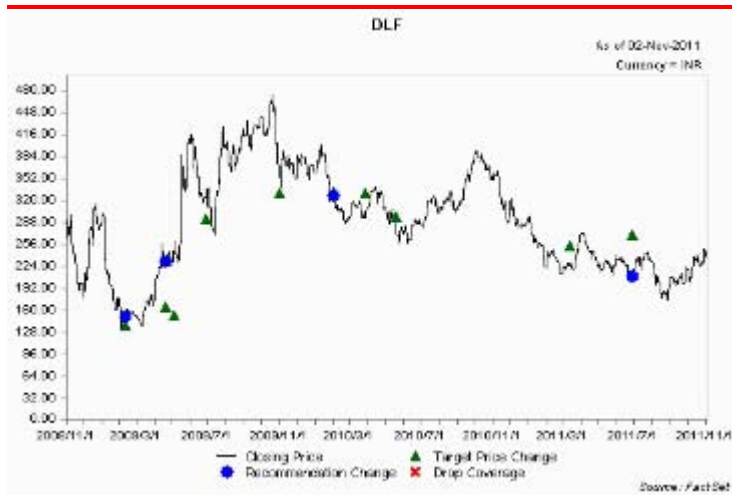
### Previous Rating

Issuer name	Previous Rating	Date of change
DLF	Neutral	29 Jun 2011

### DLF (DLFU IN)

**233.3 INR (09 Nov 2011) Buy**

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
29-Jun-2011		270.00	209.50
29-Jun-2011	Buy		209.50
14-Mar-2011		253.00	228.30
20-May-2010		296.00	271.05
29-Mar-2010		330.70	299.15
02-Feb-2010		331.00	326.20
02-Feb-2010	Neutral		326.20
02-Nov-2009		330.00	370.00
29-Jun-2009		292.00	338.00
06-May-2009		152.00	245.95
20-Apr-2009		164.00	230.80
20-Apr-2009	Reduce		230.80
11-Feb-2009		138.00	150.85
11-Feb-2009	Neutral		150.85

For explanation of ratings refer to the stock rating keys located after chart(s)

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**Risks that may impede the achievement of the target price** Downside risks include: 1) further rapid increases in interest rates; 2) below-expectation growth in the economy; 3) execution lagging expectations; 4) a credit-crunch like environment resulting in developers being unable to refinance their debt; 5) equity dilution to repay debt and 6) inability to sell non-core assets.

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## Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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