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# DLF LIMITED

BSE / NSE - DLF  
Previous Close: INR 226.35 / 226.50

## *A Crumbling Edifice*

Canadian Pacific Tower  
100 Wellington Street West  
Suite 3110, PO Box 80  
Toronto, Ontario, Canada  
M5K 1E7

tel: (416) 866-8783  
fax: (416) 866-4146  
www.veritascorp.com



**India Research - Real Estate**

Neeraj Monga  
neeraj@veritasasia.com

Nitin Mangal  
nitin@veritasasia.com

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## A CRUMBLING EDIFICE

DLF Limited (“DLF” or the “Company”) is an organization under duress. Management is scrambling to consummate assets sales, rationalize its land bank and divest non-core operations within five years of a much-publicized IPO – in May 2007 at a price of INR 525 (\$U.S. 10.70) per share - proclaiming DLF as a builder of modern India, and the best positioned company to benefit from India’s great leap forward. Since the IPO, the stock price has declined 57% compared to an approximate gain of 29% in the SENSEX<sup>1</sup>. What transpired in the interim? We remove the façade to reveal the bare shell in the pages that follow.

*A dream gone sour*

Claims made by management about its ability to execute were fanciful. Aggressive accounting approved by auditors, perpetuated & aided by investment bankers during the IPO process, the ill-informed media frenzy surrounding the IPO, and the Company’s high profile in Gurgaon – the outsourcing hub on the outskirts of New Delhi – have all contributed to the myth that DLF is a corporate pillar of India. Management also garnered some national awards subsequently, thereby cementing its position in the annals of Indian business stalwarts.

Most importantly, we do not believe the disclosed book equity and asset base of the Company. We believe that via its dealings with DAL, from FY07 to FY11, the Company inflated sales by at least INR 11,236C (\$U.S. 2,607M) and its profit before tax (“PBT”) by INR 7,233C (\$U.S. 1,690M).

Since the IPO, management has faltered at every step in executing its grandiose vision to be a conglomerate with tentacles spread across hotels (the JV with Hilton has ended and Silverlink Resorts is up for sale), build mega townships (exited Bidadi in Karnataka and Dankuni in West Bengal), become free cash flow positive by FY11 (INR -936C, \$U.S. 191.2M for the year), build a mega convention center in the NCR region (exited in 2009), and so on.

*Zero execution capability*

We also believe that DLF has undertaken questionable related party transactions to boost the value of DAL prior to its acquisition by DLF, thereby subverting the interest of minority shareholders via a higher purchase price for DAL.

If your investment decision incorporates management integrity, then bypassing DLF will be an easy choice. For those willing to look past aggressive and conflicting accounting policies, self-enrichment and inability to deliver on promises, then perhaps a balance sheet stretched to the limit (TTM net-debt/EBITDA multiple of 6.03x<sup>2</sup>), with no respite in sight and debt restructuring a real possibility, will be the dissuading part.

At its current stock price, DLF trades at a TTM EV/EBITDA multiple of 18.9x. The Company has no free cash flow and no credible plan to de-lever its balance sheet. A slowing real estate market in a high inflation environment and over-exposure to Gurgaon - amongst India’s most speculative real estate markets - will create tremendous pressure on the Company’s balance sheet<sup>3</sup>. In the

*A Fairy Tale Valuation*

<sup>1</sup> All stock price data pertaining to DLF is as of February 24, 2012 close. Exchange rate is average for reported five years.

<sup>2</sup> Net debt of INR 22,758C (\$U.S.4647.9 M)from Q3-F12 presentation, and TTM EBITDA of INR 3,772C (\$U.S 770.4 M) from Bloomberg

<sup>3</sup> Details in Appendix 1.

end, we believe DLF will seek assistance from financial institutions to restructure its loans.

We believe issuing equity in a secondary offering thereby diluting shareholders, and killing the current dividend are the only reasonable options for the Company.

In a best case scenario DLF is worth INR 100/share (\$U.S. 2.04) - less than half its current stock price of INR 226.9 (\$4.62) - from its core operations and investments, which approximates 1x Veritas adjusted book value of INR 101 (\$2.06)/share.

**SELL**

SELL.



**ERITAS**  
INVESTMENT RESEARCH

Canadian Pacific Tower  
100 Wellington Street West  
Suite 3110, PO Box 80  
Toronto, Ontario, Canada  
M5K 1E7

tel: (416) 866-8783

fax: (416) 866-4146

[www.veritascorp.com](http://www.veritascorp.com)

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