

**BUY**

TP: INR 285.00

▲ 27.5%

**DLF**

DLFU IN

## Deleveraging on track, growth to follow

**DLF's sale of Aman Resorts for US\$ 300mn is a key positive for the company as it will help reduce debt further to Rs 195bn (19% YTD), thereby moving closer to the management's March'13 guidance of Rs 185bn or a 23% reduction in FY13. We expect deleveraging to continue with asset sales and potential equity issuance (via FPO/IPP) over the coming quarters. This coupled with a potential pick-up in operations (sales & deliveries) would auger well for the stock going ahead. Maintain BUY.**

- ➔ **US\$ 300mn deal in line with expectations:** DLF's agreement to sell luxury hotel chain Aman Resorts for US\$ 300mn is broadly in line with our expectations and is positive for the company's deleveraging plans. The deal is expected to be completed by February'13 and excludes the hotel in Delhi which DLF plans to develop and monetise separately. Even though the EV in USD terms is lower than the purchase consideration (US\$ 400mn), the forex gain (purchase at Rs 42/USD vs. Rs 55/USD now) and the excluded property would mean nil loss on its books.
- ➔ **On track to meet deleveraging target:** With this deal, DLF's net debt would be ~Rs 195bn or Rs 10bn higher than management's March'13 target of Rs 185bn. However, this target can easily be met on completion of the Windmills transaction. This coupled with potential cash inflow from an FPO/IPP should keep debt at the target level of Rs 150bn, implying a total Rs 100bn reduction in net debt since March'12.
- ➔ **Uptick in volumes, deliveries to be the key triggers going ahead:** We expect projects worth Rs 110bn+ to be announced over the next few months and pre-sales of Rs 35bn in H2FY13. This should help improve the volume momentum going forward. Further, ~30% of the ongoing projects are scheduled to be completed in the next 2-3 quarters.
- ➔ **Maintain BUY:** DLF is on track to meet its mid-term deleveraging target. This coupled with a potential pick-up in operations and improving macro conditions should help bridge the valuation gap. DLF is our top pick in the real estate space.

### Financial Highlights

Y/E 31 Mar	FY10A	FY11A	FY12A	FY13E	FY14E
Revenue (INR mln)	74,209	95,606	96,294	99,354	110,504
EBITDA (INR mln)	35,012	37,528	39,043	45,478	51,130
Adjusted net profit (INR mln)	18,171	15,425	12,263	17,583	17,796
Adjusted EPS (INR)	10.7	9.1	7.2	10.4	10.5
Adjusted EPS growth (%)	(60.7)	(14.9)	(20.4)	43.4	1.2
DPS (INR)	4.0	4.0	4.0	4.0	4.0
ROIC (%)	5.3	5.0	4.7	5.7	6.8
Adjusted ROAE (%)	7.7	6.3	4.9	6.8	6.5
Adjusted P/E (x)	29.0	29.6	27.9	21.6	21.3
EV/EBITDA (x)	21.3	18.6	15.1	12.8	11.3
P/BV (x)	2.1	1.9	1.3	1.4	1.3

Source: Company, Bloomberg, RCML Research



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PRICE CLOSE (12/18/2012)

INR 223.45

MARKET CAP

INR 37,940 mln

USD 692 mln

SHARES O/S

169.8 mln

FREE FLOAT

21.0%

3M AVG DAILY VOLUME./VALUE

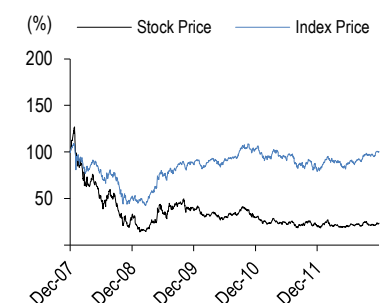
8.2 mln/ USD 33.0 mln

52 WK HIGH

INR 258.30

52 WK LOW

INR 174.55



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Company Update

INDIA

REAL ESTATE

**Fig 1 - Near-term triggers**

Particular	Impact	Remarks
<b>Asset sales</b>	<b>Asset sales to be the key to meet this target</b>	
Aman Resorts	US\$ 300mn to help further reduce debt. Receipts from this transaction will constitute 60% of year-end debt reduction target	Money to be received by Feb'13
Wind Mills	~Rs 90bn to help further cut debt. Receipts from this transaction will constitute 30% of year-end debt reduction target	The company expects an announcement to this effect in Q4FY13
<b>Launches</b>	<b>To help stimulate volumes and hence visibility on cash/book profit</b>	
New Gurgaon - Mid-Income		Expected in Dec'12 @ ASP of ~Rs 6,000psf
New Gurgaon - Commercial		High street retail space in New Gurgaon on the same lines as DLF Galleria in DLF City, Gurgaon. Expected in Q4FY13
Phase V – IInd phase of Park place		Expected in Q4FY13 @ ASP of >Rs 16,000. Our channel checks suggest the company should get a good response to initial launches in this project
Phase V - IInd Phase of Magnolias		Expected in Q4FY13 @ ASP of >Rs 20,000. Our channel checks suggest that the company should get a good response to initial launches in this project
<b>Execution – Delivery</b>	<b>To help reduce under-execution properties and hence offer higher scope to expand</b>	
New Gurgaon – New Town heights		~9msf to be delivered in New Town Heights. DLF has already applied for a completion certificate for a part of this project.
Manesar		Expected delivery in FY14
Chennai – OMR		Expected delivery in FY14
<b>Macro</b>		
Reduction in interest rates	A 100bps lower interest rate helps DLF save Rs 2.3bn p.a. of interest costs	Our macro team expects at least 50bps cut in interest rate in Q4FY13

Source: RCML Research

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**Per Share Data**

Y/E 31 Mar (INR)	FY10A	FY11A	FY12A	FY13E	FY14E
Reported EPS	10.1	9.6	7.1	11.3	14.0
Adjusted EPS	10.7	9.1	7.2	10.4	10.5
DPS	4.0	4.0	4.0	4.0	4.0
BVPS	143.8	144.5	149.8	156.7	166.3

**Valuation Ratios**

Y/E 31 Mar (x)	FY10A	FY11A	FY12A	FY13E	FY14E
EV/Sales	10.0	7.3	6.1	5.9	5.2
EV/EBITDA	21.3	18.6	15.1	12.8	11.3
Adjusted P/E	29.0	29.6	27.9	21.6	21.3
P/BV	2.1	1.9	1.3	1.4	1.3

**Financial Ratios**

Y/E 31 Mar	FY10A	FY11A	FY12A	FY13E	FY14E
<b>Profitability &amp; Return Ratios (%)</b>					
EBITDA margin	47.2	39.3	40.5	45.8	46.3
EBIT margin	42.8	32.7	33.4	39.3	41.0
Adjusted profit margin	24.5	16.1	12.7	17.7	16.1
Adjusted ROAE	7.7	6.3	4.9	6.8	6.5
ROCE	4.8	4.7	4.7	5.7	6.9
<b>YoY Growth (%)</b>					
Revenue	(26.1)	28.8	0.7	3.2	11.2
EBITDA	(36.2)	7.2	4.0	16.5	12.4
Adjusted EPS	(60.7)	(14.9)	(20.4)	43.4	1.2
Invested capital	20.2	10.7	2.7	(6.2)	2.0
<b>Working Capital &amp; Liquidity Ratios</b>					
Receivables (days)	93	61	63	55	44
Inventory (days)	1,653	1,119	1,436	1,635	1,539
Payables (days)	409	217	154	186	170
Current ratio (x)	3.0	3.9	3.6	3.4	3.4
Quick ratio (x)	1.6	1.8	1.6	1.4	1.4
<b>Turnover &amp; Leverage Ratios (x)</b>					
Gross asset turnover	0.6	0.5	0.5	0.5	0.6
Total asset turnover	0.1	0.2	0.2	0.2	0.2
Net interest coverage ratio	2.9	1.8	1.4	1.8	2.6
Adjusted debt/equity	0.9	1.0	1.0	0.8	0.7

**DuPont Analysis**

Y/E 31 Mar (%)	FY10A	FY11A	FY12A	FY13E	FY14E
Tax burden (Net income/PBT)	75.2	73.5	79.7	68.5	56.3
Interest burden (PBT/EBIT)	76.0	67.2	47.8	65.8	69.8
EBIT margin (EBIT/Revenue)	42.8	32.7	33.4	39.3	41.0
Asset turnover (Revenue/Avg TA)	13.4	15.6	15.5	16.1	18.4
Leverage (Avg TA/Avg equities)	234.1	250.0	248.6	237.0	218.5
Adjusted ROAE	7.7	6.3	4.9	6.8	6.5



## Income Statement

Y/E 31 Mar (INR mln)	FY10A	FY11A	FY12A	FY13E	FY14E
<b>Total revenue</b>	<b>74,209</b>	<b>95,606</b>	<b>96,294</b>	<b>99,354</b>	<b>110,504</b>
EBITDA	35,012	37,528	39,043	45,478	51,130
EBIT	31,766	31,221	32,155	39,034	45,284
Net interest income/(expenses)	(11,075)	(17,056)	(22,465)	(21,959)	(17,268)
Other income/(expenses)	4,333	5,839	5,945	8,605	3,614
Exceptional items	(870)	972	(255)	0	0
EBT	24,153	20,976	15,380	25,680	31,629
Income taxes	(6,957)	(4,594)	(3,694)	(6,420)	(7,907)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	103	16	321	5	5
<b>Reported net profit</b>	<b>17,300</b>	<b>16,397</b>	<b>12,008</b>	<b>19,265</b>	<b>23,727</b>
Adjustments	870	(972)	255	(1,682)	(5,931)
<b>Adjusted net profit</b>	<b>18,171</b>	<b>15,425</b>	<b>12,263</b>	<b>17,583</b>	<b>17,796</b>

## Balance Sheet

Y/E 31 Mar (INR mln)	FY10A	FY11A	FY12A	FY13E	FY14E
Accounts payables	46,370	22,636	25,807	29,107	26,148
Other current liabilities	0	42,806	47,332	47,332	47,332
Provisions	43,916	6,950	8,032	8,835	9,718
Debt funds	230,706	242,292	252,940	202,940	187,940
Other liabilities	51,536	48,275	45,416	45,416	45,416
Equity capital	3,410	3,395	3,397	3,397	3,397
Reserves & surplus	241,719	241,823	250,970	262,762	279,016
Shareholders' fund	245,129	245,218	254,367	266,159	282,413
<b>Total liabilities and equities</b>	<b>617,658</b>	<b>608,177</b>	<b>633,894</b>	<b>599,789</b>	<b>598,968</b>
Cash and cash eq.	9,282	13,218	15,062	9,366	617
Accounts receivables	16,190	15,660	17,659	12,496	13,877
Inventories	124,806	150,388	161,756	167,470	169,170
Other current assets	122,780	100,366	98,580	99,189	99,815
Investments	55,052	9,958	11,268	11,268	11,268
Net fixed assets	165,580	178,721	187,140	157,573	161,793
CWIP	111,288	102,344	89,928	89,928	89,928
Intangible assets	12,680	13,840	16,248	16,248	16,248
Deferred tax assets, net	0	1,633	3,349	3,349	3,349
Other assets	0	22,049	32,904	32,904	32,904
<b>Total assets</b>	<b>617,658</b>	<b>608,177</b>	<b>633,894</b>	<b>599,789</b>	<b>598,968</b>

## Cash Flow Statement

Y/E 31 Mar (INR mln)	FY10A	FY11A	FY12A	FY13E	FY14E
Net income + Depreciation	20,547	22,705	18,896	25,709	29,573
Interest expenses	11,075	17,056	22,465	21,959	17,268
Non-cash adjustments	0	0	0	0	0
Changes in working capital	65,486	(6,543)	6,575	8,772	(767)
Other operating cash flows	(10,260)	(23,883)	(28,791)	(30,564)	(20,882)
<b>Cash flow from operations</b>	<b>86,847</b>	<b>9,335</b>	<b>19,146</b>	<b>25,876</b>	<b>25,192</b>
Capital expenditures	(148,383)	(10,489)	(2,256)	23,123	(10,066)
Change in investments	0	1,425	0	0	0
Other investing cash flows	(36,699)	28,884	(6,219)	8,605	3,614
<b>Cash flow from investing</b>	<b>(185,081)</b>	<b>19,820</b>	<b>(8,475)</b>	<b>31,728</b>	<b>(6,452)</b>
Equities issued	136	1,386	1,445	0	0
Debt raised/repaid	53,566	10,161	10,648	(50,000)	(15,000)
Interest expenses	(12,535)	(13,990)	(9,378)	(5,828)	(5,016)
Dividends paid	(7,501)	(7,469)	(7,473)	(7,473)	(7,473)
Other financing cash flows	61,890	(15,307)	(4,068)	0	0
<b>Cash flow from financing</b>	<b>96,427</b>	<b>(26,192)</b>	<b>(8,571)</b>	<b>(63,301)</b>	<b>(27,489)</b>
<b>Changes in cash and cash eq</b>	<b>(1,807)</b>	<b>2,963</b>	<b>2,099</b>	<b>(5,696)</b>	<b>(8,749)</b>
<b>Closing cash and cash eq</b>	<b>9,282</b>	<b>13,218</b>	<b>15,062</b>	<b>9,366</b>	<b>617</b>

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