

DLF

18 February 2013

Reuters: DLF.BO; Bloomberg: DLFU IN

Launch Of New Projects On Track

We attended the analyst meet held by DLF recently, and also visited some of its ongoing projects (Cyber City, New Gurgaon, Capital Greens, Mall of India, Magnolias etc). Following are the key takeaways:

- The company's management indicated that the launch of its high-value Phase V residential projects in Gurgaon is likely within the next two-three months, beginning with Crest. The Phase V project comprises two sub-projects i.e. Crest (2.5mn sq ft) and Camelias (Magnolias Phase II, 3.5mn sq ft) to be executed in three phases. Indicative prices for Crest and Camelias are likely to be Rs13,000/sq ft and above Rs20,000/sq ft, respectively, with likely ticket size of each apartment being Rs30mn and Rs150mn, respectively. We have factored in total 1.5mn sq ft of sales in FY14E and FY15E each from these projects combined.
- DLF has 2,000 acres of land in new Gurgaon which has potential 55mn sq ft of saleable area. So far the company has monetised 14mn sq ft out of 15mn sq ft launched, having a total value of Rs100bn. In CY12, the company managed to sell 4mn sq ft, and the run-rate is likely to be maintained in the medium term, in our view. The project that will be launched immediately in New Gurgaon is Ultima, with a potential saleable area of 2.1mn sq ft and is likely to be priced at Rs10,000/sq ft.
- DLF has 10.8mn sq ft (40% of its total leased portfolio) of leasable area currently operational in Cyber City (Gurgaon) with average rentals at Rs50/sq ft. Out of 10.8mn sq ft, ~4.0mn sq ft is expected to come for renewal over the next six months, which is likely to take average rental to Rs60/sq ft. DLF's Cyber City has 90 metres of skylift for fire-fighting operations, a dedicated fire station attached to the office complex, a co-generation power plant earning carbon credits and rapid metro rail likely to commence operations by the end of March 2013. Metro rail operations will add Rs7/sq ft/month to DLF's rentals in Cyber City, saving commuting time and travelling costs for office-goers.
- The Mall of India, situated in the prime location of Noida with likely gross leasable area of 1.8mn sq ft, built-up area of 2.7mn sq ft and a car park that can accommodate 2,500 cars will be largest mall in space terms in India. From our site visit, we feel that it is likely to be ready for fit-outs by the end of FY14. The management has indicated total construction costs of the project at Rs11bn out of which Rs9.5bn has already been spent. The company has so far pre-leased 60% of the space with some of its anchor tenants like Reliance Retail (60,000 sq ft), Forever 21 (44,000sq ft) and Mark & Spencer (50,000sq ft). The rentals for 90% of its tenants are likely to be revenue sharing/minimum rentals, whichever is higher, and the management expects to garner Rs165mn of rental income per month once the operations at the mall stabilise. We have factored in rentals to kick-start from 2QFY15E with an occupancy rate of 50% in the first year of operations.
- Monetisation of high-value projects like Wazriabad (350 acres, Gurgaon) and Chanakyapuri (17 acres, Delhi) is at least two-three years away because of an ongoing litigation.
- The Capital Greens project (West Delhi) is spread over 65 acres of land, which is entitled for FSI (floor space index) of 3 and 2.3 for residential and commercial constructions, respectively. So far 35 acres have been monetised, with total saleable area at 5.2mn sq ft (residential) and 0.5mn sq ft (commercial). Possession of the residential portion is likely to be given in June-December 2014. The management is yet to finalise a plan for monetising the remaining land, but it is likely to go for residential projects on 22.5 acres and commercial/retail projects on 7.5 acres. The FSI can go up to 4 for residential projects on the said land in case the metro rail plan gets approved.

BUY

Sector: Real Estate

CMP: Rs249

Target Price: Rs296

Upside: 19%

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Key Data

Current Shares O/S (mn)	1,698.7
Mkt Cap (Rsbn/US\$bn)	422.5/7.8
52 Wk H / L (Rs)	279/170
Daily Vol. (3M NSE Avg.)	8,013,905

Price Performance (%)

	1 M	6 M	1 Yr
DLF	(5.3)	19.0	(2.0)
Nifty Index	(2.9)	9.7	5.8

Source: Bloomberg

- The management has given guidance of 8.0mn sq ft of steady state pre-sales over the next three years. The likely split of 8.0mn sq ft is 1.5mn sq ft of Gurgaon Phase V project (worth EBITDA Rs25bn), 2.5mn sq ft of New Gurgaon project (worth EBITDA Rs12.5bn) and 4.0mn sq ft of rest of India projects (worth EBITDA Rs17.5bn). We have factored in Rs70bn of total pre-sales in FY14E.
- The management has given guidance of EBITDA at Rs82.5bn, free cash flow at Rs30bn and net debt at Rs100bn in the next three years. The EBITDA target will have Rs27.5bn of income from rental business. Free cash flow of Rs30.0bn is after accounting for capex (Rs15.0bn), finance costs (Rs10.0bn), other expenses (Rs20.0bn) and dividend (Rs7.5bn). We expect DLF to turn free cash flow positive in FY14E, after four years, given the renewed focus on launch of high-value projects and non-core asset sales so far in FY13.

Valuation and outlook: DLF has outperformed BSE Sensex by 14% over the past two months on expectation of improvement in cash flow/reduction in net debt, which was quite visible in 3QFY13. We expect further improvement in cash flow led by the launch of high-value new projects and non-core asset sales. We have retained our Buy rating on DLF with a target price of Rs296, which is at a 15% discount to our one-year forward NAV.

Financial summary

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Net sales	95,606	96,294	73,006	100,826	141,830
EBITDA	37,527	39,043	26,407	39,028	57,625
Net profit	16,396	12,008	8,464	14,842	25,545
EPS (Rs)	9.7	7.1	5.0	8.7	15.0
EPS growth (%)	(4.7)	(26.8)	(29.5)	75.4	72.1
EBITDA margin (%)	39.3	40.5	36.2	38.7	40.6
PER (x)	25.8	35.2	50.0	28.5	16.6
P/BV (x)	1.6	1.6	1.5	1.5	1.4
EV/EBITDA (x)	17.3	16.8	24.2	15.8	10.9
RoCE (%)	4.1	4.2	2.4	4.1	7.9
RoE (%)	5.8	4.5	3.1	5.3	8.6

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
4 October 2011	Sell	201	174
15 November 2011	Sell	234	174
11 January 2012	Sell	191	174
13 February 2012	Sell	231	174
13 April 2012	Sell	198	174
31 May 2012	Sell	183	174
21 June 2012	Sell	186	174
10 July 2012	Sell	214	174
07 August 2012	Sell	211	174
4 October 2012	Sell	229	174
10 October 2012	Sell	224	174
15 November 2012	Sell	203	174
6 December 2012	Buy	222	260
19 December 2012	Buy	226	260
15 February 2013	Buy	254	296

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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