

DLF Limited

Gurgaon luxury launch "Camellias" gets off to a good start

According to our discussions with property agents/brokers, DLF has launched and significantly pre-sold its initial inventory of the high-end golf course residential project "The Camellias". We believe around 32 units have been sold with ticket prices of US\$3MM+ and a base selling price of Rs25K/psf. This follows the earlier successful launch of Crest (@ Rs15K/psf). We note that as per the annual plan laid out by the company, the target was to sell 1.7 msf p.a over the next 3-4 years. These two launches, we estimate, have taken the sales volume to approx 1.1 msf with selling prices higher than our assumptions. Phase 5, in our view, will increasingly become a key driver of the company's operating cash flow from F15 onwards.

- **Camellias launched – good response** – Camellias is the third phase of DLF's golf course residential project (following Aralias and Magnolias). Over the entire project, there are just 429 apartments (to be sold over four years) with a starting size of 7,400 sqft, going up to 16,000 sqft.
- **Pricing is aggressive ... but it's a marquee project.** The company's launch price of Rs25K/psf (there are discounts on timely payment and early possession totaling Rs4K) is aggressive in the context of neighbouring projects which are ready and selling at similar or only slightly higher rates. However, we believe the marquee nature of the location, limited unit availability and spread out payment schedule (construction-linked) explain the take up in an otherwise slow market.
- **1Q results preview** – Given that launches done from 2HF13 onwards in the Gurgaon/New Gurgaon area will take at least six quarters to move to revenue recognition (ex golf course), we expect weak earnings performance in 1Q (revenue Rs19.7B/EBITDA Rs7.5B/PAT Rs0.1B) **as the roll down of old projects continues and new project accounting is deferred under the new rules (25% completion).** Project deliveries are likely to remain elevated through the year (13msf+). We expect net debt reduction of Rs15B on the back of the recent capital raise. Overall, we expect net cash flow to be negative by Rs3B, similar to last quarter, given continued rent/land capex.

Overweight

DLF.BO, DLFU IN

Price: Rs168.30

Price Target: Rs300.00

India

Real Estate

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Bloomberg JPMA KUMAR <GO>

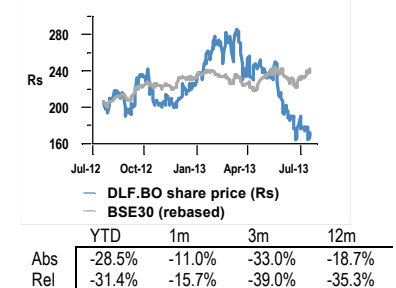
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J.P. Morgan India Private Limited

Price Performance



DLF Limited (Reuters: DLF.BO, Bloomberg: DLFU IN)

Rs in mn, year-end Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (Rs mn)	95,606	96,294	77,728	97,939	116,064
Net Profit (Rs mn)	16,396	12,008	7,119	9,288	19,546
EPS (Rs)	9.66	7.08	4.20	5.22	10.98
Net Debt/Equity	96.4%	97.5%	95.3%	73.2%	59.0%
EPS growth (%)	(4.7%)	(26.8%)	(40.7%)	24.4%	110.4%
ROE	6.1%	4.9%	3.0%	3.5%	6.9%
P/E (x)	17.4	23.8	40.1	32.2	15.3
P/BV (x)	1.2	1.1	1.1	1.1	1.0

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

Shares O/S (mn)	1,697
Market Cap (\$ mn)	4,786
Price (Rs)	168.30
Date Of Price	19 Jul 13
3M - Avg daily volume (mn)	8.93
3M - Avg daily value (Rs mn)	1,822.34
3M - Avg daily value (\$ mn)	30.5
BSE30	2,0128.41
Exchange Rate	59.67

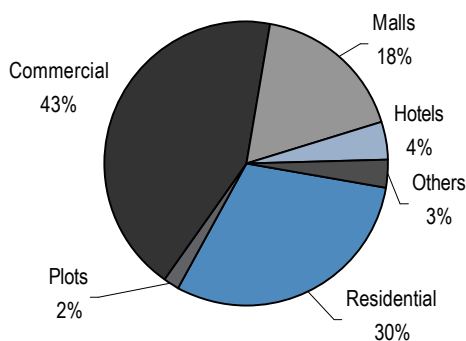
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Company Description

DLF is the largest private developer in India with a development pipeline of 325msf across various cities. In the past, the company has primarily focused on the NCR market, and has been credited with the development of Gurgaon and DLF City Township (3,000 acres). The company is currently executing 56msf projects in various cities.

NAV break up chart



Source: JPMorgan Estimates

EPS: J.P. Morgan vs. consensus

	J. P. Morgan	Consensus
FY14E	6.2	6.1
FY15E	10.7	11.4

Source: Bloomberg, J.P. Morgan estimates.

Valuation and EPS sensitivity metrics

	NAV impact (%)	EPS impact (%)
Price growth in FY14		
Impact of each 5% point change	7%	9%
Cap rate assumption		
Impact of each 1% point change	8%	2%

Source: J.P. Morgan estimates

Price target and valuation analysis

Maintain Overweight rating with a Mar-14 Price Target of Rs 300/share. Our PT is derived from a stabilized cash flow model valuing the development business at 10x and Rent co at 13x cash flow.

Key downside risks – (a) Delay in resolution of stay order served on Crest and delay in launch of Camellias (additional launch in Phase V) ; b) Lower-than-expected debt reduction; (c) Lower-than-expected policy rate cuts; and (d) Material derating of overall macro fundamentals in India.

DLF Limited: Summary of Financials

Profit and Loss Statement					Cash flow statement				
Rs in millions, year end Mar	FY11	FY12	FY13E	FY14E	Rs in millions, year end Mar	FY11	FY12	FY13E	FY14E
Revenues	95,606	96,294	77,728	97,939	EBIT	31,219	32,155	18,300	28,104
% change Y/Y	28.8%	0.7%	(19.3%)	26.0%	Depr. & amortization	6,307	6,888	7,962	8,200
EBIT	31,219	32,155	18,300	28,104	Change in working capital	(4,404)	(7,303)	9,602	29,023
% change Y/Y	(2.0%)	3.0%	(43.1%)	53.6%	Others	13,208	14,912	15,496	20,800
EBIT margin (%)	32.7%	33.4%	23.5%	28.7%	Cash flow from operations	31,508	26,505	40,180	67,311
Net Interest	(11,217)	(16,520)	(9,911)	(15,883)	Capex	(10,489)	(2,256)	(6,500)	(6,578)
Earnings before tax	20,002	15,635	8,388	12,221	Disposal/(purchase)	-	-	-	-
% change Y/Y	(20.1%)	(21.8%)	(46.3%)	45.7%	Net Interest	(25,913)	(30,125)	(32,500)	(26,000)
Tax	(4,594)	(3,693)	(1,251)	(2,933)	Free cash flow	29,660	36,867	42,113	72,805
as % of EBT	23.0%	23.6%	14.9%	24.0%	Equity raised/(repaid)	0	0	0	18,630
Net income (reported)	16,396	12,008	7,119	9,288	Debt raised/(repaid)	0	0	0	0
% change Y/Y	(4.7%)	(26.8%)	(40.7%)	30.5%	Other	(52,070)	(27,918)	(23,765)	(30,394)
Core net profit	15,424	12,263	7,624	9,288	Dividends paid	(6,109)	(3,818)	(3,818)	(4,004)
% change Y/Y	(15.0%)	(20.5%)	(37.8%)	21.8%	Beginning cash	52,350	16,023	16,597	17,702
Shares outstanding	1,697	1,697	1,697	1,779	Ending cash	16,023	16,597	17,702	20,804
EPS (reported)	9.66	7.08	4.20	5.22					
% change Y/Y	(4.7%)	(26.8%)	(40.7%)	24.4%					
Balance sheet					Ratio Analysis				
Rs in millions, year end Mar	FY11	FY12	FY13E	FY14E	Rs in millions, year end Mar	FY11	FY12	FY13E	FY14E
Cash and cash equivalents	16,023	16,597	17,702	20,804	EBIT margin	32.7%	33.4%	23.5%	28.7%
Accounts receivable	15,660	17,659	18,542	20,396	Net margin	16.1%	12.7%	9.8%	9.5%
Inventories	150,388	161,756	175,498	151,251	Sales growth	28.8%	0.7%	(19.3%)	26.0%
Others	122,416	131,484	118,588	114,155	Net profit growth	(4.7%)	(26.8%)	(40.7%)	30.5%
Current assets	304,486	327,496	330,329	306,605	EPS growth	(4.7%)	(26.8%)	(40.7%)	24.4%
Investments	8,785	13,082	15,733	16,333	Interest coverage (x)	3.3	2.4	2.6	2.3
Net fixed assets	281,065	277,069	275,606	273,984	Net debt to total capital	49.1%	49.4%	48.8%	42.3%
Total Assets	608,177	633,894	636,668	608,922	Net debt to equity	96.4%	97.5%	95.3%	73.2%
Liabilities					Sales/assets	0.2	0.2	0.1	0.2
Accounts payables	37,362	38,013	42,574	48,960	Assets/equity	2.4	2.5	2.5	2.3
Others	61,836	68,658	66,068	56,679	ROE	6.1%	4.9%	3.0%	3.5%
Total current liabilities	99,198	106,671	108,642	105,639	ROCE	4.7%	4.8%	3.0%	4.2%
Total debt	258,008	268,650	266,658	224,793					
Other liabilities	0	0	0	0					
Total Liabilities	357,207	375,321	375,300	330,432					
Shareholder's equity	245,218	254,367	257,668	274,789					
BVPS	143.82	149.19	151.84	154.43					

Source: Company reports and J.P. Morgan estimates.

JPM Q-Profile

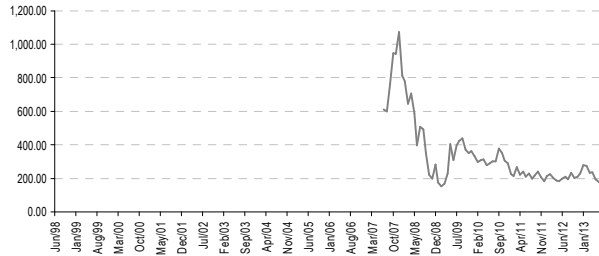
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As Of: 19-Jul-2013

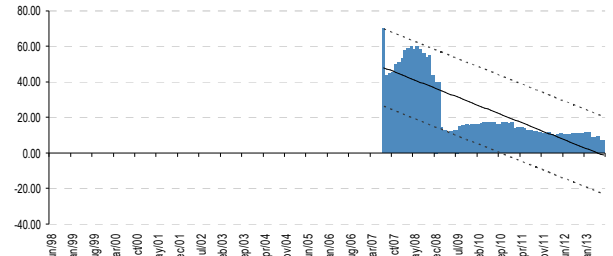
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

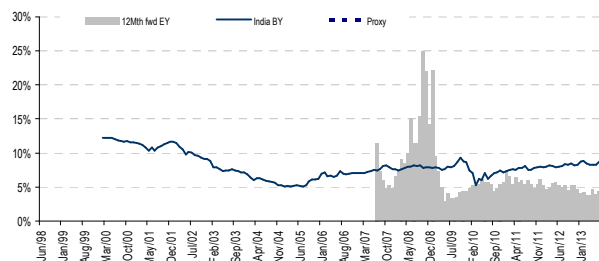
Local Share Price Current: **165.55**



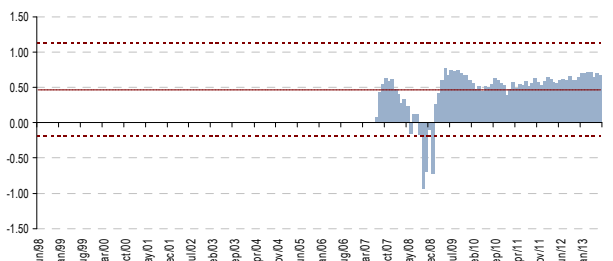
12 Mth Forward EPS Current: **7.17**



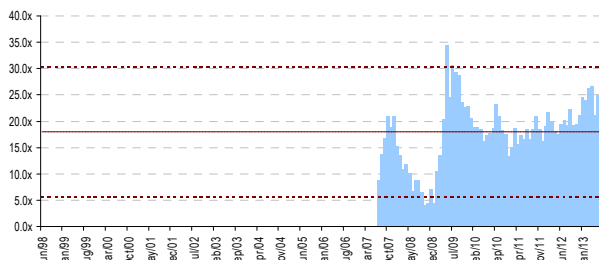
Earnings Yield (& local bond Yield) Current: **4%**



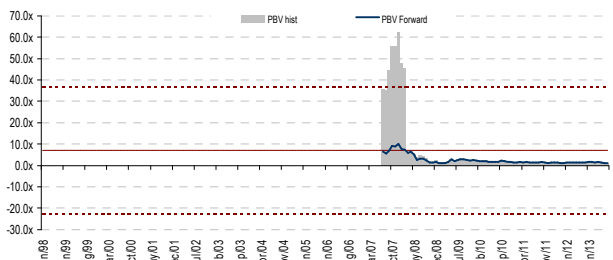
Implied Value Of Growth* Current: **68.59%**



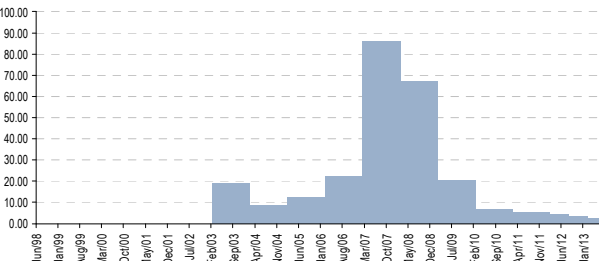
PE (1Yr Forward) Current: **23.1x**



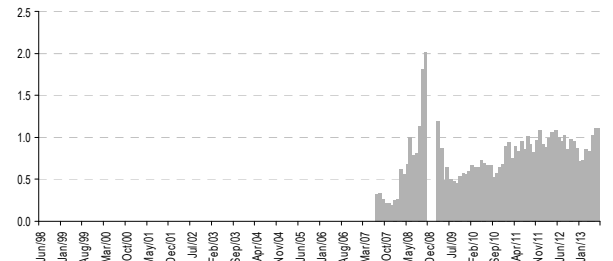
Price/Book Value Current: **1.0x**



ROE (Trailing) Current: **2.66**



Dividend Yield (Trailing) Current: **1.10**



Summary

DLF Ltd. INDIA Financials	SEDOL	B1YLCV0	As Of:	19-Jul-13							
			Local Price:	165.55							
			EPS:	7.17							
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	23.10x	4.02	34.36	18.67	18.02	30.39	5.66	-83%	49%	-19%	-22%
P/BV (Trailing)	1.02x	1.02	63.04	1.86	7.12	36.67	-22.44	0%	6071%	82%	597%
Dividend Yield (Trailing)	1.10	0.00	2.02	0.74	0.75	1.45	0.04	-100%	83%	-33%	-32%
ROE (Trailing)	2.66	2.66	85.80	12.29	24.28	77.58	-29.01	0%	3121%	361%	812%
Implied Value of Growth	68.6%	-0.94	0.77	0.57	0.47	1.13	-0.19	-237%	12%	-16%	-31%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

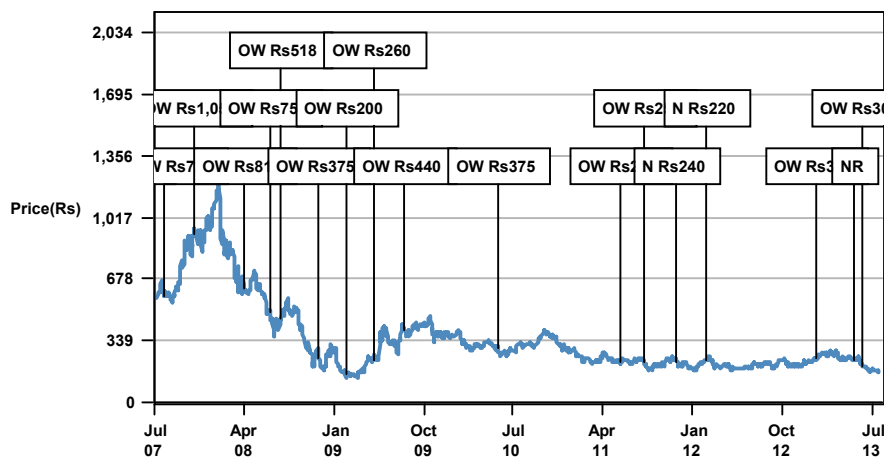
* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

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DLF Limited (DLF.BO, DLFU IN) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
01-Aug-07	OW	584.60	725.00
01-Nov-07	OW	927.95	1050.00
01-Apr-08	OW	627.00	810.00
18-Jun-08	OW	492.35	750.00
21-Jul-08	OW	457.05	518.00
12-Nov-08	OW	244.60	375.00
03-Feb-09	OW	153.20	200.00
04-May-09	OW	233.75	260.00
03-Aug-09	OW	396.15	440.00
16-May-10	OW	298.75	375.00
26-May-11	OW	217.50	280.00
03-Aug-11	OW	222.05	255.00
13-Nov-11	N	223.40	240.00
12-Feb-12	N	230.90	220.00
13-Jan-13	OW	247.20	300.00
07-May-13	NR	232.70	--
03-Jun-13	OW	195.30	300.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Break in coverage May 07, 2013 - Jun 03, 2013.

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