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Rating	BUY
Price	Rs261
Target Price	Rs298
Implied Upside	14.2%
Sensex	19,501
Nifty	5,898

(Prices as on February 18, 2013)
Trading data

Market Cap. (Rs bn)	443.1
Shares o/s (m)	1,697.4
3M Avg. Daily value (Rs m)	2124.9

Major shareholders

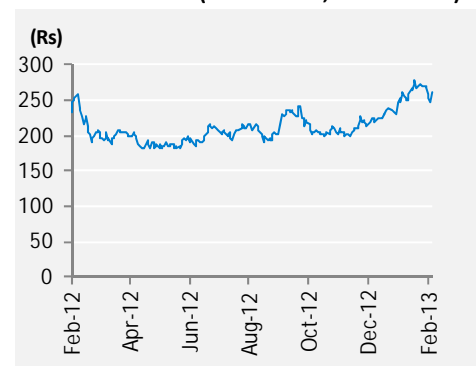
Promoters	78.58%
Foreign	14.87%
Domestic Inst.	0.99%
Public & Other	5.56%

Stock Performance

(%)	1M	6M	12M
Absolute	(0.6)	24.9	2.8
Relative	2.1	14.7	(3.8)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2014	8.7	11.1	-21.2
2015	10.7	15.2	-29.3

Price Performance (RIC: DLF.BO, BB: DLFU IN)


Source: Bloomberg

At DLF's analyst day, Vice Chairman, Mr Rajiv Singh, outlined the company's strategy to attain a steady state in 24-36 months with an EBITDA target of Rs82.5bn, FCF of Rs30bn and target debt levels of Rs100bn achieved on account of high value sales in Gurgaon coupled with capital issuances. Although the high value launches that were expected by us in Q4 FY13, seems to be delayed, overall we expect the momentum of sales to pick-up in H1FY14. We maintain BUY on DLF with a price target of Rs298.

- Strategy-Spur EBITDA, reduce debt:** DLF's target is to spur EBITDA through additional leasing, high value Phase V launches, New Gurgaon launches as well key launches in its 'Rest of India' portfolio. It targets an EBITDA of Rs82.5bn which shall result in FCF of Rs30bn. This, coupled with two capital issuances totalling to Rs55bn shall lead to targeted debt levels of Rs100bn which can be easily serviced by its rental portfolio.
- Synopsis of site visit:** Having visited DLF's key land parcels in Gurgaon and Delhi, our confidence in the quality of its land bank has been heightened on account of the infrastructure development that has been undertaken to enhance the value of the offering especially in Cybercity & Phase V, Gurgaon. However, in terms of the high-value launches in Phase V, Gurgaon that we had expected in Q4FY13, are more likely to take place in H1FY14.
- Q3 Results-Accounting guidelines, provisions & cost inflation dampen results:** DLF reported revenues of Rs13.1bn, 36% decline both on a YoY & QoQ basis. With the new accounting guidelines, new launch 'Sky Court' was not accounted in sales during the current quarter. Margins were extremely subdued at 6.6% as it provided for the potential loss on the Aman hotel sale as well as 'Timely Payment Rebates' on all projects under handover. Besides, costs for certain projects were also revised upwards. The PBT impact of higher costs was Rs5.62bn. PAT increased by 10% YoY and 106% QoQ to Rs2.8bn on account of profit accounted for the NTC mill sale transaction to the tune of 8.38bn.

Key financials (Y/e March)	2012	2013E	2014E	2015E
Revenues (Rs m)	96,294	84,240	105,058	113,985
Growth (%)	0.7	(12.5)	24.7	8.5
EBITDA (Rs m)	39,043	31,843	43,494	46,050
PAT (Rs m)	12,263	11,926	15,506	19,046
EPS (Rs)	7.2	7.0	8.7	10.7
Growth (%)	(20.5)	(2.7)	24.4	22.8
Net DPS (Rs)	2.0	2.0	1.9	2.0

Profitability & Valuation	2012	2013E	2014E	2015E
EBITDA margin (%)	40.5	37.8	41.4	40.4
RoE (%)	4.9	4.6	5.6	6.4
RoCE (%)	5.2	5.2	5.3	5.8
EV / sales (x)	7.1	7.8	6.1	5.4
EV / EBITDA (x)	17.4	20.6	14.8	13.4
PE (x)	36.2	37.2	29.9	24.3
P / BV (x)	1.7	1.7	1.6	1.5
Net dividend yield (%)	0.8	0.8	0.7	0.8

Source: Company Data; PL Research

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Key Takeaways from the management meeting

Broad strategy: DLF targets to become cashflow neutral in the short-term & positive in the medium term. The company continues to exhibit its faith in the asset-heavy land-banking strategy, however would remain cautious on rental capex.

On the sale side, DLF is committed on protecting its margins by knowing its costs in detail. Its strategy of using third party contractors and building in escalations is in-line with this objective. Besides, in order to maximize returns, they shall follow a strategy of releasing stock in batches. It targets to achieve a steady state over the next 24-36 months in all segments of its business.

Rent Co: From the existing run-rate of Rs17.5bn (excluding wind) on a portfolio of 26.5m sq.ft, the company targets rental; **EBITDA of Rs27.5bn** in three years on account of

- 15% escalation every three years
- Rs3.5bn through new developments like Mall of India, Chanakypuri retail, Hub & Horizon
- 6mn sq.ft of almost ready office space shall generate Rs3.5bn

Long term target- 2mn sq.ft of new leases annually for the next 25 years

Dev Co Phase V: The company targets an annual EBITDA of Rs25bn from the phase V projects on account of new launches planned.

- It has planned launches of 6m sq.ft in the near-term.
- Besides it has another 20mn sq.ft of development potential plus another 10m sq.ft from the 350acre new golf course development.
- Gross margins of Rs17k/sq.ft

Long term target- A pipeline of 20 years at 1.5msq.ft/year.

Dev Co New Gurgaon: The company targets an EBITDA of Rs12.5bn annually from its new launches.

- Currently averaging ~3.5m sq.ft annually
- Targeting 2.5m sq.ft of sales annually at a gross margin of Rs5K/ sq.ft
- Of the 55m sq.ft of planned projects in new Gurgaon, 15m sq.ft has been launched & 14m sq.ft sold.

- The visible potential in New Gurgaon is to the extent of 20m sq.ft of group housing, 21m sq.ft of commercial as well as 0.7m sq.yards of plotted development.

Long term target- A pipeline of 20 years at 2.5msq.ft/year

Dev Co- Delhi, Mumbai, Rest of India: DLF targets an EBIDTA of Rs7.5bn from its luxury assets in Delhi, Mumbai, Goa and MRC & Rs10bn from premium projects in Chandigarh, Lucknow, Chennai, Bangalore, Kolkata & Bhubaneswar.

- Targeting sales of 0.5m sq.ft at its luxury projects at average gross margins of Rs15k/sq.ft
- For its premium project portfolio, it is targeting sales of Rs3.5m sq.ft at gross margins of Rs3k/sq.ft.

Long term target- A pipeline of 20 years at 4msq.ft/year

Exhibit 1: EBIDTA Targets over the next 24-36 months

Asset Class	Annual Volume Target (m.sq.ft)	Per sq.ft margin (Rs)	Target EBIDTA (Rs bn)	Current status
Rent Co	2	NA	27.5	Current portfolio of 26.5m sq.ft , run rate of Rs17.5bn
Dev Co- Phase V	1.5	17,000	25	No launch in the last 4 years
Dev-Co-New Gurgaon	2.5	5,000	12.5	Current run-rate of Rs3.5m sq.ft
Dev Co--Delhi, Mumbai, Rest of India	4	4,375	17.5	Current run rate of 4-5m sq.ft
Total	10		82.5	
-Annual Sales Volumes	8			
-Annual Lease Volumes	2			

Source: Company Data, PL Research

Exhibit 2: Free Cash Flows: DLF target FCF of Rs30bn through post rent co capex and land acquisition (Rs.bn)

Total EBIDTA	82.5
Finance Costs	10
Capex+ Land Acquisition	15
Other Exp, Tax etc	20
Dividends	7.5
Total Expenses	52.5
Net FCF (Rs bn)	30

Source: Company Data, PL Research

Capital actions: in order to bring the promoter stake below 75%, one capital action is expected before June 2013. One more capital action is likely to take place which in our opinion will be post conversion of the promoters CCPS. The company is targeting Rs55bn through both these capital actions.

Leverage: The company targets a net debt level of Rs100bn in the medium term through positive operational cash flows, capital actions & miscellaneous divestments. DLF would like to have debt on its dev co and keep debt at levels that can be serviced by the rent co (6 x rental EBITDA)

Exhibit 3: Target debt levels (Rs bn)

Net debt post Aman & Windmill	185-190
2 Capital Actions+ miscellaneous divestments	55
FCF from Operations (Net of rentco capex & land outflow)	30
Target Net Debt Levels	100

Source: Company Data, PL Research

CCPS: With regards to the CCPS that stand due in two years, the management stated that they will be converted to equity at a fair value in a tax compliant manner.

Geographical spread: From the earlier target of a 24 city presence, the company now plans to restrict its presence to 12 cities which includes the cities where it is currently present as well some new opportunities that may come by.

Key property visits & takeaways

Dlf Cybercity: The total lease portfolio is 14m sq.ft at DLF Cyber City while another 2m sq.ft is the near term potential. One of the leases that got renewed was at a rate of Rs107/sq.ft as against the earlier Rs60/sq.ft. ~2.5m sq.ft of leases are expiring in 2013. Epitome, which is a new development at DLF Cybercity, has been 80% leased at an average rate of Rs75/sq.ft

Several infrastructure initiatives are underway at Cybercity which include, a rapid-metro line which will connect to the Delhi Metro as well as a 16-lane expressway from NH-8 toll booth to Sector 55.

Dlf Garden City-New Gurgaon: 15m sq.ft at Garden City has been launched of which 14m sq.ft has been sold. Further, the potential is 20mn sq.ft of residential and 21 mn sq.ft of commercial.

The company is launching Ultima on 26th February 2013, which is a 2.1m sq.ft project of which 1m sq.ft is likely to get launched initially.

Phase V-Gurgaon: The Magnolia's, Belaire, Park Place and Aralias are mostly in the internal fit-out and handover stage. The company is preparing for the launch of 2 projects in Phase V; 'The Crest' which is the erstwhile 'Park Place-2' as well as 'Camellia' which is the erstwhile 'Magnolas-2' which shall both together total to ~6m sq.ft. Currently the 'Show Flat' for Crest is under development and is likely to be ready over the next 2-3 months, however the launch is expected prior to that.

Mall of India-Noida: Situated in sector 18 Noida, it is 1.8m sq.ft of mall development which is to be the largest in the country. The mall is likely to be ready by September/October-2013 and is 50% pre-leased at ~Rs90/sq.ft

Capital Greens-Delhi: The three phases of Capital greens which have been launched and sold generated Rs41bn over 5.2m sq.ft. The first phase was launched at Rs6k/sq.ft while Phase 2 & 3 were sold at Rs8k/sq.ft & 13K/sq.ft respectively. Completion of the three phases is planned for December -2014 and the contract has been awarded to L&T.

The potential left out at this plot under the current FAR stands at 4m sq.ft which is expected to increase, given that the area is likely to come under the Metro master plan.

Chanakyapuri, Delhi-Land parcel: It is a 17 acre super-prime land parcel. However, the launch of any project on this parcel seems a long while away as the area is a politically sensitive area and the plans are yet to be approved.

Q3 FY13 Results Update

Accounting guidelines, provisions & cost inflation dampen results: The company reported revenues of Rs13.1bn, 36% decline both on a YoY & QoQ basis. With the new accounting guidelines, new launch 'Sky Court' was not accounted in sales during the current quarter on account of the completion threshold.

Margins were extremely subdued at 6.6% as the company provided for the potential loss on the Aman hotel sale as well as 'Timely Payment Rebates' on all projects under handover. Besides, costs for certain projects were revised upwards which not only led to a lower EBIDTA but also resulted in reduced POCM which impacted revenues. The PBT impact of higher costs was Rs5.62bn. PAT increased by 10% YoY and 106% QoQ to Rs2.8bn on account of profit accounted for the NTC mill sale transaction to the tune of 8.38bn.

Volumes subdued: DLF clocked in sales volumes of 2.27m sq.ft during the quarter valued at Rs12.5bn as against 3.3m sq.ft in Q3FY12 and 1.59m sq.ft in Q2FY13. Sales were contributed by 1.2m sq.ft Sky Court launched in Gurgaon and 0.57m launched in Chandigarh. Volumes in 9M FY13 are at 5.23m sq.ft as against 6.78m sq.ft in 9M FY12

NTC Mills sales leads to reduced net debt: Although the company has not seen a reduction in gross debt, net debt declined by Rs18.7bn on account of the funds received from the sale of the Mumbai NTC mill land parcel. Gross debt stands at Rs253.8bn while net debt stands at Rs213.5bn.

Valuations: On account of a reduction in launch estimates for FY13 as well as a change in accounting policies, we are revising our earnings downwards for FY13 & FY14. We are reducing topline by 31% & 32% for FY13 & FY14 respectively and our PAT downwards by 34% & 51% respectively for the same time period. We maintain our **BUY** rating on the stock.

Exhibit 4: Q3FY13 Result Overview (Rs m)

Y/e March	Q3FY13	Q3FY12	YoY gr. (%)	Q2FY13	9MFY13	9MFY12	YoY gr. (%)
Sales	13,100	20,344	(35.6)	20,395	55,473	70,126	(20.9)
Expenditure							
Cost of revenue	7,884	8,103	(2.7)	8,725	23,051	26,991	(14.6)
<i>% of Net Sales</i>	<i>60.2</i>	<i>39.8</i>		<i>42.8</i>	<i>41.6</i>	<i>38.5</i>	
Other expenses	2,798	2,635	6.2	2,653	8,910	7,694	15.8
<i>% of Net Sales</i>	<i>21.4</i>	<i>13.0</i>		<i>13.0</i>	<i>16.1</i>	<i>11.0</i>	
Staff Costs	1,548	1,379	12.3	1,554	4,508	4,374	3.1
<i>% of Net Sales</i>	<i>11.8</i>	<i>6.8</i>		<i>7.6</i>	<i>8.1</i>	<i>6.2</i>	
Total Expenses	12,230	12,116	0.9	12,932	36,469	39,059	(6.6)
EBITDA	870	8,227	(89.4)	7,464	19,004	31,067	(38.8)
<i>EBITDA Margin (%)</i>	<i>6.6</i>	<i>40.4</i>		<i>36.6</i>	<i>34.3</i>	<i>44.3</i>	
Depreciation	2,479	1,797	37.9	1,837	6,102	5,252	16.2
Other Income	9,812	3,617	171.3	1,173	12,297	4,638	165.1
EBIT	8,204	10,047	(18.3)	6,800	25,199	30,453	(17.3)
Less: Interest	5,809	6,199	(6.3)	5,224	17,259	16,426	5.1
PBT	2,395	3,848	(37.8)	1,575	7,940	14,027	(43.4)
Tax	(84)	1,353	NA	394	1,447	4,106	(64.8)
<i>Effective Tax Rate (%)</i>	<i>-3.5</i>	<i>35.2</i>		<i>25.0</i>	<i>18.2</i>	<i>29.3</i>	
PAT	2,479	3,686	(32.8)	1,182	6,493	9,921	(34.5)
Minority Interest-Share of Loss/(Profit)	430	109	295.9	116	620	(57)	NA
Profit /Loss of Associates	(25)	(17)	NA	(2)	9	20	(56.4)
Prior Period Items	(36)	(4)	NA	90	39	38	0.5
Net Profit	2,848	2,583	10.2	1,385	7,161	9,923	(27.8)

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2012	2013E	2014E	2015E
Net Revenue	96,294	84,240	105,058	113,985
Raw Material Expenses	39,675	37,065	42,023	46,734
Gross Profit	56,619	47,174	63,035	67,251
Employee Cost	5,862	5,223	6,409	6,953
Other Expenses	11,714	10,109	13,132	14,248
EBITDA	39,043	31,843	43,494	46,050
Depr. & Amortization	6,888	7,924	8,782	9,200
Net Interest	22,465	22,766	16,577	14,230
Other Income	5,945	13,750	3,000	3,500
Profit before Tax	15,635	14,903	21,136	26,121
Total Tax	3,694	3,577	6,129	7,575
Profit after Tax	11,941	11,326	15,006	18,546
Ex-Od items / Min. Int.	(541)	100	100	100
Adj. PAT	12,263	11,926	15,506	19,046
Avg. Shares O/S (m)	1,698.4	1,698.4	1,774.8	1,774.8
EPS (Rs.)	7.2	7.0	8.7	10.7

Cash Flow Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
C/F from Operations	24,109	59,614	49,608	57,531
C/F from Investing	(2,790)	(11,646)	(15,721)	(15,957)
C/F from Financing	(19,717)	(60,370)	(32,138)	(42,313)
Inc. / Dec. in Cash	1,602	(12,402)	1,749	(739)
Opening Cash	13,461	15,062	2,661	4,410
Closing Cash	15,062	2,661	4,410	3,671
FCFF	(11,508)	29,698	22,030	32,302
FCFE	(751)	(6,187)	(8,558)	6,221

Key Financial Metrics

Y/e March	2012	2013E	2014E	2015E
Growth				
Revenue (%)	0.7	(12.5)	24.7	8.5
EBITDA (%)	4.0	(18.4)	36.6	5.9
PAT (%)	(20.5)	(2.7)	30.0	22.8
EPS (%)	(20.5)	(2.7)	24.4	22.8
Profitability				
EBITDA Margin (%)	40.5	37.8	41.4	40.4
PAT Margin (%)	12.7	14.2	14.8	16.7
RoCE (%)	5.2	5.2	5.3	5.8
RoE (%)	4.9	4.6	5.6	6.4
Balance Sheet				
Net Debt : Equity	1.0	0.9	0.7	0.6
Net Wrkng Cap. (days)	643	499	290	80
Valuation				
PER (x)	36.2	37.2	29.9	24.3
P / B (x)	1.7	1.7	1.6	1.5
EV / EBITDA (x)	17.4	20.6	14.8	13.4
EV / Sales (x)	7.1	7.8	6.1	5.4
Earnings Quality				
Eff. Tax Rate	23.6	24.0	29.0	29.0
Other Inc / PBT	38.0	92.3	14.2	13.4
Eff. Depr. Rate (%)	3.2	3.6	3.8	3.8
FCFE / PAT	(6.1)	(51.9)	(55.2)	32.7

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
Shareholder's Funds	254,367	262,319	290,665	305,558
Total Debt	250,660	214,775	184,187	158,106
Other Liabilities	22,199	22,830	23,555	24,390
Total Liabilities	527,226	499,924	498,408	488,053
Net Fixed Assets	277,069	280,791	287,731	294,488
Goodwill	16,248	14,623	13,161	11,845
Investments	11,268	11,268	11,268	11,268
Net Current Assets	219,292	189,892	182,899	167,103
<i>Cash & Equivalents</i>	<i>15,062</i>	<i>2,661</i>	<i>4,410</i>	<i>3,671</i>
<i>Other Current Assets</i>	<i>310,899</i>	<i>332,462</i>	<i>360,027</i>	<i>390,355</i>
<i>Current Liabilities</i>	<i>106,669</i>	<i>145,231</i>	<i>181,538</i>	<i>226,923</i>
Other Assets	3,349	3,349	3,349	3,349
Total Assets	527,226	499,924	498,408	488,053

Quarterly Financials (Rs m)

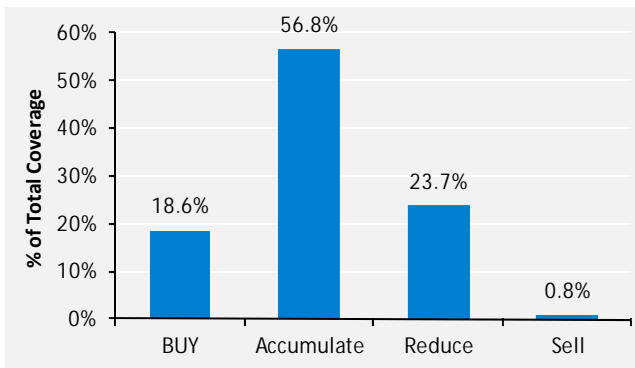
Y/e March	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Net Revenue	26,168	21,977	20,395	13,100
EBITDA	3,997	10,670	7,464	870
<i>% of revenue</i>	<i>15.3</i>	<i>48.6</i>	<i>36.6</i>	<i>6.6</i>
Depr. & Amortization	1,636	1,786	1,837	2,479
Net Interest	6,039	6,226	5,224	5,809
Other Income	1,307	1,311	1,173	9,812
Profit before Tax	(2,371)	3,970	1,575	2,395
Total Tax	(413)	1,137	394	(84)
Profit after Tax	(1,862)	2,928	1,385	2,479
Adj. PAT	(1,601)	2,928	1,385	2,479

Key Operating Metrics

Y/e March	2012	2013E	2014E	2015E
Revenues (Rs m)				
Property Sales (Rs m)	80,790	66,960	84,898	92,385
Rental Income (Rs m)	15,504	17,280	20,160	21,600
Development Business				
Sales (Msf)	14	7	8	8
Annuity Business				
Leases (Msf)	1	2	3	3
Area launched (m sqft)				
	12	12	15	15

Source: Company Data, PL Research.

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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