



# JV CAPITAL SERVICES PVT. LTD

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**DLF**

**CMP: 311.55**

**BUY**

**INDUSTRY: Real Estate**

**RISK PROFILE: High**

**TARGET: 460**

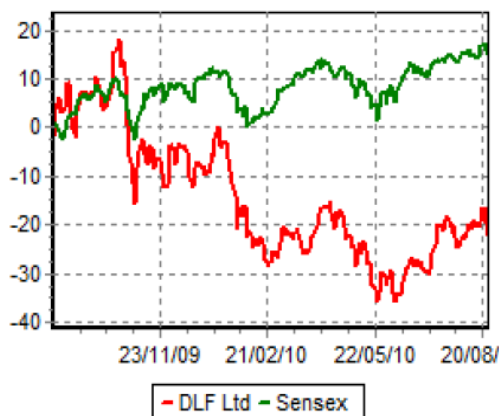
## Data Table

CMP (Rs)	311.55
Target price(Rs)	460.00
Upside (%)	48
52 Week H/L (Rs)	519.90 / 254.50
P/E Ratio	60.48
P/BV Ratio	4.08
Dividend Yield %	0.64
Market cap (Rs. Cr)	52867.08
6m Avg volume (nos)	15,12,379
No. of o/s shares (nos)	36,26,00,100
FV (Rs)	2.00
NSE code	DLF

DLF is one of the largest and most respected real estate companies in India. The company has developed many well known urban colonies in Delhi, including South Extension, Greater Kailash, Kailash Colony and Hauz Khas. Since inception, DLF has developed nearly 224msf (million sq feet), including 22 urban colonies and an integrated 3,000-acre township in Gurgaon, called DLF City. In recent years it has expanded across India with a focus on the Northern India belt, Kolkata, Mumbai, Chennai, and a number of other large and rapidly growing cities. DLF enjoys a strong brand franchise with a good track record in execution and delivery. It has a diversified asset portfolio and an emerging pan-India presence.

## Key Investment Themes

## Relative Performance Analysis



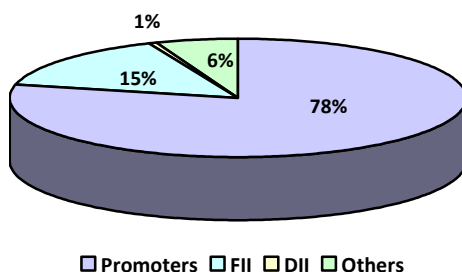
## Recovery in commercial property

Recovery in commercial property could be positive trigger for the stock going forward. DLF has 13 mn sq. ft of commercial space in DAL which can be leased. Of this only approx. 50% is leased. DLF will benefit from any recovery in commercial leasing as balance area is almost ready inventory, which can be delivered within six months. We also believe that new commercial starts can start from Q4FY11 as inventory reduces and various developers start planning for demand recovery by H2FY12.

## DAL listing in Singapore

We believe DAL listing in Singapore REIT market will be NAV accretive because of the lower cap rates in Singapore compared to India. Also this could create availability of funds to invest in further projects.

## Shareholding Pattern



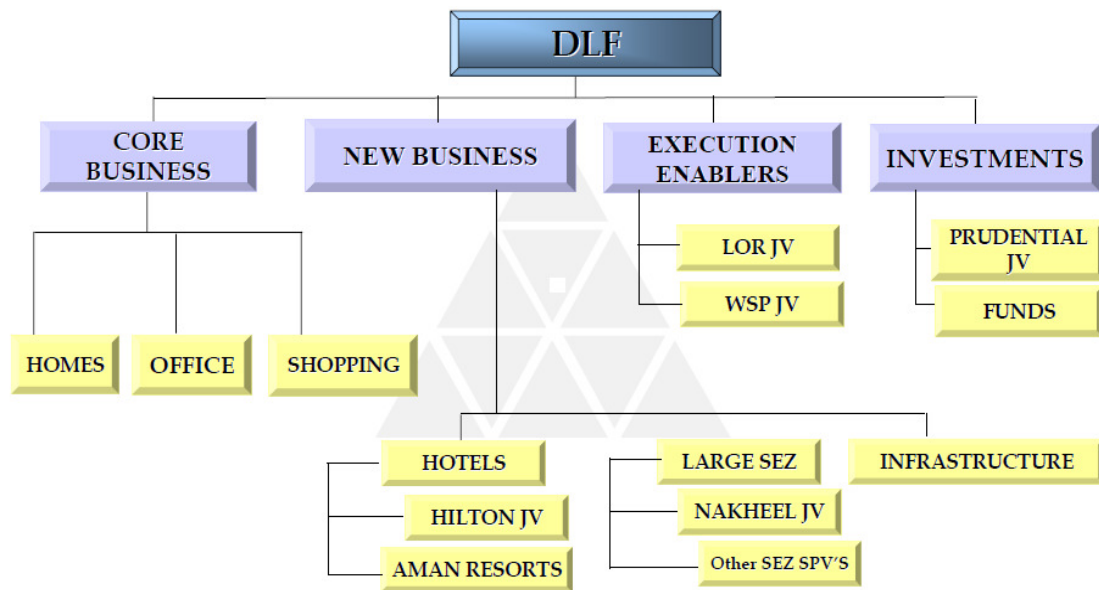
## Operating cash flow cycle turns positive

Despite large tax payments of Rs500 crore, DLF generated marginal operating cash flow for Q4FY10. We believe pace of operating cash flow will increase sharply from 1QFY11. Management indicated that DLF is getting cash collections of Rs600-700 crore/month from its ongoing projects. Post consolidation, DLF will have an annual rental income of Rs1500-1600 crore, which further give comfort on cash flow visibility. Apart from this, DLF also has steady income from power business, hotels and maintenance activities.

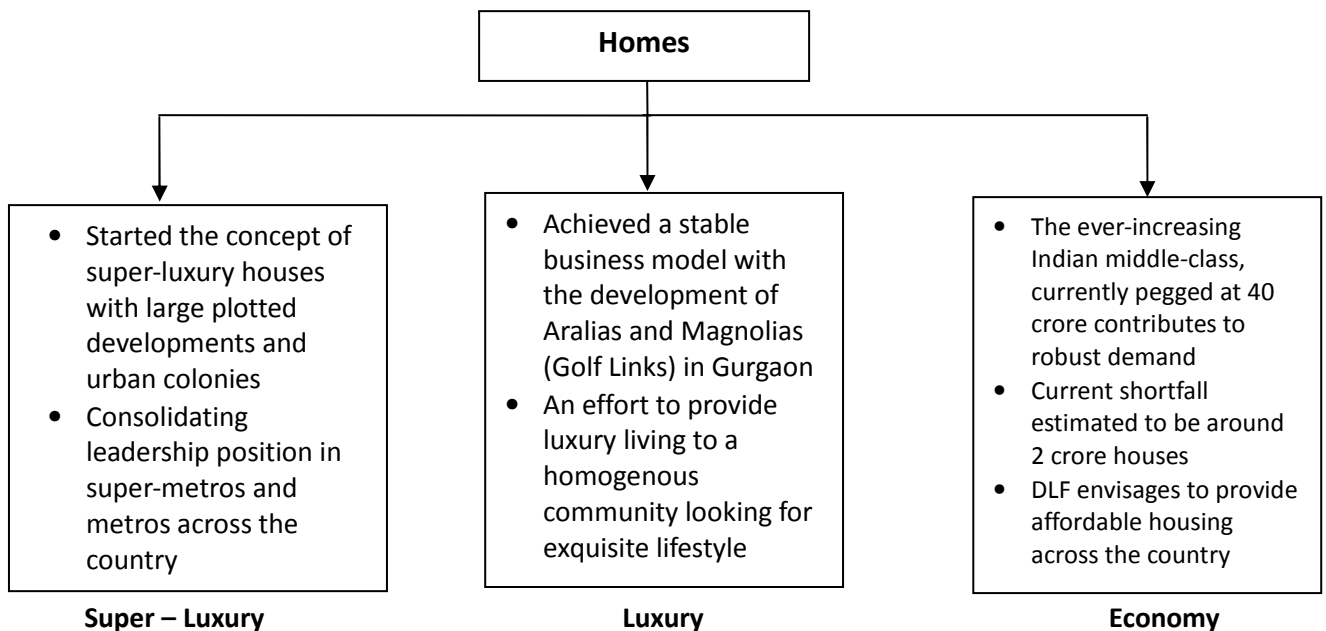
## Plan to reduce debt by selling non-core assets

DLF plans to raise Rs2,500 crore in the next 15-18 months through divestment of non-core assets. As part of the plan, the company would sell land parcels and rope in a strategic investor for its luxury hotel chain Aman Resorts. DLF sold land parcels worth Rs294 crore during the June quarter.

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**Structure of DLF's businesses**



- Started the concept of super-luxury houses with large plotted developments and urban colonies
- Consolidating leadership position in super-metros and metros across the country

**Super – Luxury**

- Achieved a stable business model with the development of Aralias and Magnolias (Golf Links) in Gurgaon
- An effort to provide luxury living to a homogenous community looking for exquisite lifestyle

**Luxury**

- The ever-increasing Indian middle-class, currently pegged at 40 crore contributes to robust demand
- Current shortfall estimated to be around 2 crore houses
- DLF envisages to provide affordable housing across the country

**Economy**

***DLF's strategy in residential segment***

### **Leasing momentum picks up; pre-sales booking slower y-o-y and q-o-q**

- Commercial pre-leasing gained momentum - approximately 1 msf leased in Q1 FY11 (vs. 0.7msf in Q4FY10), largely in Gurgaon and Chennai. Leasing target is 3-4msf in FY11, though management remains cautious of the inflationary pressure and policy risks with respect to proposed Direct Tax Code
- Residential pre-sales of 1.9 msf in Q1FY11 (vs. 3.6msf in Q4FY10 and 2.7msf y-o-y)
- Projects under construction remained stable at 55msf (vs. 56msf in Q4FY10)

Pick up in the commercial segment was visible in Q1FY11 with leasing of ~1msf in the rent. This compares to leasing of 0.7msf in Q4FY10 and 0.09msf in Q1FY10 – highlighting the pace of the pick up. The company management remains very confident of meeting its FY11 target of 3-4msf given the pick up in the market. While leasing activity has already picked up meaningfully in SEZs, any clarity on Direct Tax Code (DTC) could further accelerate the momentum. The retail segment has also witnessed a marked pickup over the last three quarters. IT Services volume growth is picking up, which should continue to drive a robust demand. The sharp pick up in hiring across the IT sector also attests to this fact.

The company continues to be confident of its FY11 residential sales target of 15-18msf despite a weak Q1 where it pre-sold only ~1.9msf. The management has cited execution challenges (primarily related to labour shortages etc.) as the key reason for delays. DLF continues to be much focused on margins and thus pricing. Hence, sales could surprise negatively and may fall a little short of the FY11 guidance.

DLF will likely launch the residential project in NTC Mills, Lower Parel in Q1 or Q2 FY11. DLF had converted this site to a 3 mn sq. ft residential project and a 0.6 mn sq. ft retail mall from a commercial project in Q4FY10. The total saleable area is ~4.5msf. On Tulsiwadi Project, management has guided that clearance has largely happened and plans are on the drawing board – however, the launch is likely only a year from now.

### **High Debt / Equity ratio expected to come down**

DLF's debt-equity (D/E) continues to be higher than larger peers at ~0.8x (D/E ratio went up in Q1 FY11 largely due to the buy back of the CCPS of SC Asia). In absolute terms, net debt on the books is Rs18,500 crore, and in FY11 DLF needs to repay Rs2900 crore (of which Rs730 crore was repaid in Q1). While D/E of DLF is higher compared to the sector, its cash flows are supported by a

steady stream of rental flows (expected at ~Rs1400-1500 crore per year).

Given DLF has no major plans for land acquisition (unless price drops substantially), execution should result in cash generation which will be used to reduce debt.

DLF's focus on non-core divestments to reduce debt is likely to come down given the relatively easier liquidity position and improved demand environment. DLF had in an earlier analyst meet indicated a Rs2500 crore target for divestment of non-core assets and it also divested ~Rs300 crore in Q1 FY11. Divestment of non-core assets may not be a big driver to lower D/E situation, given management's expectation of a relatively lower focus on the same in light of improved business environment.

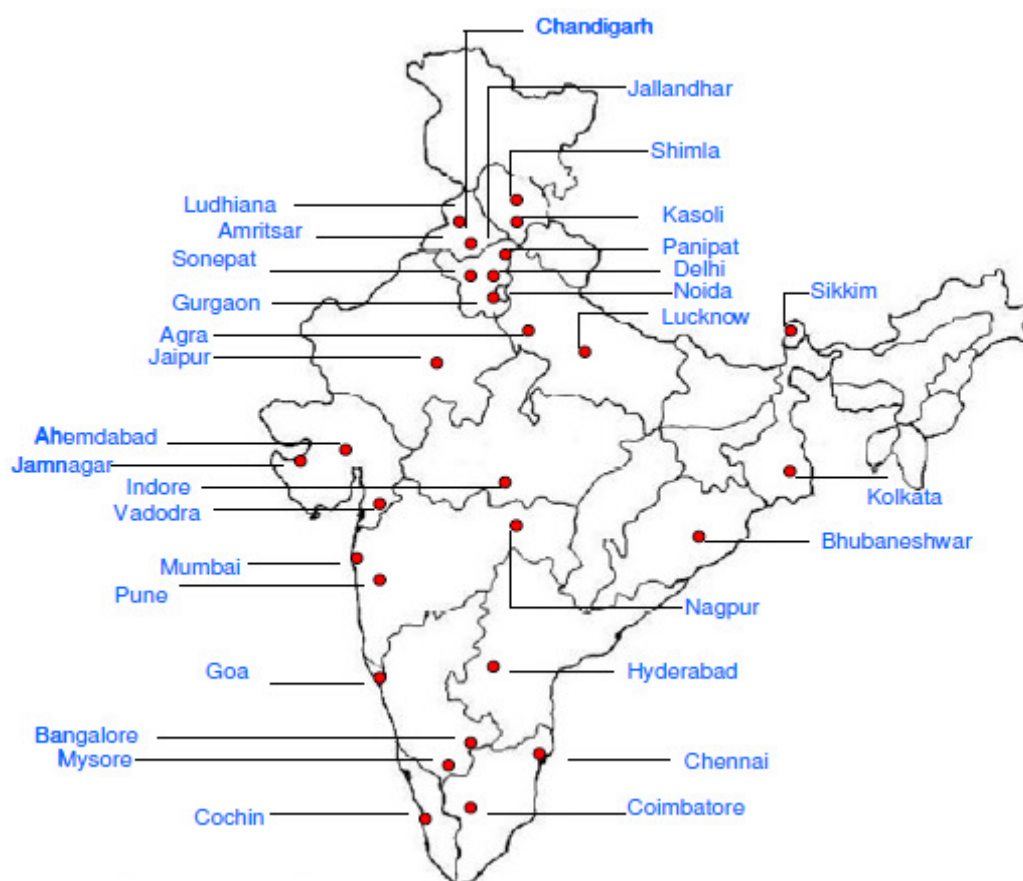
<b>Rs. crore</b>		
Gross Opening Debt (as on 01 Apr 2010)		21,677
(Less)/Add: Repaid in Q1 FY11	(732)	
New loan	2,330	
Debt due to consolidation	100	
Net increase in debt during Q1 FY11		1,697
Gross debt position (as on 30 Jun 2010)		23,374
Less: Cash in hand	3,533	
Equity shown as debt / JV Co. debt	1,378	4,911
Net debt (as on 30 Jun 2010)		18,463

**Debt situation at end of Q1 FY11**

**Listing of REIT – A positive in long run**

Post the recent restructuring, DLF owns 60% in DCCDL (DLF Cyber City Developers Ltd), while the promoter family owns the rest. In terms of assets, the current lease portfolio of 200 lakh sq feet is likely to provide an annualized rental of ~Rs1400-1500 crore of rental income (~Rs300 crore in Q1FY11). Average rental across various locations are ~Rs49/sf pm and rentals have stabilized. The monetization of the rent yielding portfolio of assets is unlikely in near future. While this may take some time, it is clearly a potential trigger – given the potential for high valuations and the resulting de-leveraging it will result in.

The current yields prevailing in key commercial markets in India range between 9%-11%, whereas for Singapore REITs yields are between 6%-7%. This indicates potential upside in valuations for DLF's rental business.



**Geographic Spread of DLF businesses**

### Valuations

We value the company using the NAV method. Applying 10% discount to the NAV we arrive at the target price. The net NAV after adjusting for land, debt, advances and taxes works out to be Rs508.45 per share. Discounting it by 10% gives us a price target of Rs462.

	In Rs. crore
Gross NAV Residential (a)	90,100
Gross NAV Non-Residential (b)	32,588
<b>Total Gross NAV for Non-Rental Business (c = (a+b))</b>	<b>1,22,688</b>
Less: Amount outstanding in lieu of land (d)	990
Less: Tax (e)	28,835
Less: Net Debt Outstanding (f)	14,863
Less: Customer Advances (g)	3,800
<b>Net NAV for Non-Rental Business (h=(c-d-e-f-g))</b>	<b>74,200</b>
Add: Value of rent yielding assets (i)	9,959
Add: Value of other businesses (j)	2,125
<b>Total NAV (h+i+j)</b>	<b>86,284</b>
No. of shares outstanding (crore) (k)	169.7
<b>NAV per share (h/k)</b>	<b>508.45</b>

*Company, JV Capital Estimates*

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## Risk Profile

**Low Risk:** Fundamentally sound companies, with low beta. Expected market out performance is 0-10%

**Medium Risk:** Expected market out performance is 10-20%. Preferably for investors with a maximum time frame of about 6 months.

**High Risk:** High Beta Stocks, expected market out performance is more than 20%, preferably for the investors willing to take advantage of market momentum & are aggressive in nature.

## Disclaimer Appendix

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