

BSE Code: 532868
NSE Code: DLF
Reuters Code: DLF.NS
Bloomberg Code: DLFU:IN

DLF Ltd (DLF) is a real estate company based in India. The company is a leading player in this industry in terms of revenues, market capitalization and developable area. Currently it has 288 msf of planned projects with 44 msf of projects under construction. The primary business of the company is development of residential, commercial and retail properties. It has a unique business model with earnings from development and rentals. At present, DLF has presence across 15 states and 24 cities in India. It has also forayed into infrastructure, SEZ and hotel businesses.

Investment Rationale

Focus on debt reduction: During Q1FY16, DLF's net debt was reported at ~Rs. 21,600 Crores increasing by Rs. 630 Crores despite the company's efforts to reduce its debt to its target levels of Rs. 16,000 Crores by FY16. However, it is looking to raise private equity funds at project level to reduce debt in the forthcoming time. It is also exploring the possibility of partially monetising its rental assets, comprising of about 30 million sq ft (msf) with Rs. 2,400 Crores of annual rental income, for reduction in debts. However, owing to lack of clarity on the time frame to execute these plans we do not see a reduction in debt in the near term. Consequently, we expect the debt to infact grow to ~Rs. 23,000 Crores by FY17E given the company's plans to incur more capex in Gurgaon.

Bottom-line disappointed despite 29% revenue growth in Q1FY16: Regardless of a 29% YoY growth in the consolidated top-line, DLF put forth a disappointing result as regards to its bottom-line which declined by ~5% from Rs. 128 Crores in Q1FY15 to Rs. 122 Crores in Q1FY16. It reported revenues worth Rs. 2,231 Crores in Q1FY16 as compared to Rs. 1,725 Crores in the corresponding quarter of FY15. The growth in sales came on the back of increase in the sales booking value from the development segment. During the quarter under review, 0.16 msf of sales booking worth Rs. 1,035 Crores was made as against 0.38 msf sales for only Rs. 308 Crores in Q1FY15. EBITDA of the firm grew by 12.3% YoY and stood at Rs. 827 Crores.

Leasing segment's performance continues to be strong: Leasing income contributed ~23.5% to the total operating revenues of the company in FY15. DLF's rental income has grown at a CAGR of 27% in the past seven years. It has doubled its contribution to the overall revenue from ~13.5% during the past five years. Despite a fall in demand due to the slowdown in the economy in past three years, DLF was able to add 1-1.5 msf leasing space every year during this period. The monthly lease rental income remains stable at Rs. 50-60/sq. ft. As of 31st March, 2015, the occupancy rate for the company's leased offices, SEZ and retail portfolio properties were approximately 92.5%.

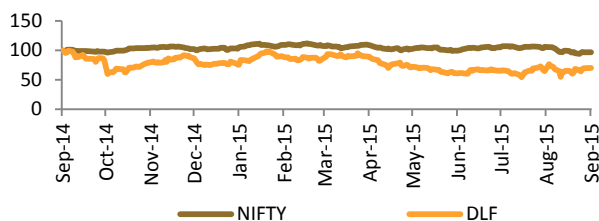
Market Data

Rating	BUY
CMP (Rs.)	124
Target (Rs.)	149
Potential Upside	~20%
Duration	Long Term
Face Value (Rs.)	2.0
52 week H/L (Rs.)	179.0/93.0
Adj. all time High (Rs.)	1,225.0
Decline from 52WH (%)	30.8
Rise from 52WL (%)	33.1
Beta	2.9
Mkt. Cap (Rs. Cr)	22,025
Enterprise Value (Rs. Cr)	41,778

Fiscal Year Ended

Y/E	FY14A	FY15A	FY16E	FY17E
Revenue (Rs. Cr)	8,298.0	7,648.7	8,490.1	9,339.1
Net profit (Rs. Cr)	646.2	540.2	626.0	780.9
EPS (Rs.)	3.6	3.0	3.5	4.4
P/E (x)	46.6	40.8	35.2	28.2
P/BV (x)	1.0	0.8	0.7	0.8
ROE (%)	2.2	1.9	2.1	2.6

One year Price Chart



Shareholding Pattern	Jun-15	Mar-14	Chg.
Promoters	74.9	74.9	0.0
FII	20.1	20.6	(0.5)
DII	0.3	0.3	0.0
Others	4.7	4.2	0.5

DLF is a leading real-estate company based in India. It is engaged in the development of residential, commercial and retail properties. The company has a unique business model with earnings coming from both development and rentals.

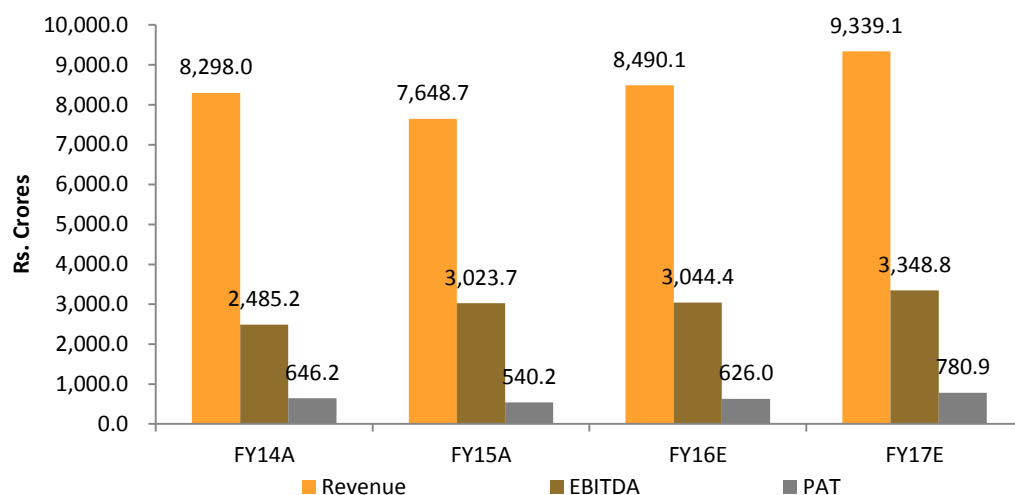
DLF Ltd. : India's largest real estate development company

DLF Ltd (DLF) is India's largest real estate company in terms of revenues, market capitalization and developable area. It currently has 288 msf of planned projects with 44 msf of projects under construction. The primary business of the company is development of residential, commercial and retail properties. It has a unique business model with earnings from development and rentals. DLF is now present across 15 states and 24 cities in India. It has also forayed into infrastructure, SEZ and hotel businesses. The company operates through two broader segments:

1. Development Business - The development business of DLF includes residential and commercial complexes. The residential business caters to three segments of the residential market - Super Luxury, Luxury and Mid-Income. The segment offering involves a wide range of products including condominiums, duplexes, row houses and apartments. DLF is credited with introducing and pioneering the revolutionary concept of developing commercial complexes in the vicinity of residential areas. It has successfully launched commercial complexes and is in the process of making its presence across various locations in India. Currently, this business has 241 msf of development potential.

2. Annuity Business (Rent) - The annuity business consists of the rental businesses of offices and retail. DLF has become a preferred name with many IT & ITES majors and leading Indian and International corporate giants, including GE, IBM, Microsoft, Canon, Citibank, Hewitt, WNS, Bank of America, Cognizant and Infosys, among others. Currently, the company has land resources of 48 msf for office and retail development.

Financial performance trend



Leasing income growth to sustain

Leasing income contributed ~23.5% to the total operating revenues of the company in FY15. DLF's rental income has grown at a CAGR of 27% in the past seven years. It has doubled its contribution to the overall revenues in the last five years. Despite a fall in demand due to the slowdown in the economy in past three years, DLF was able to add 1-1.5 MSF leasing space every year during this period.

The demand for retail segment has remained weak since 2008 and we do not expect any significant recovery in demand for retail space in the country unless there are large investments

Leasing income remains one of the key revenue source for the company. In FY15, it contributed ~23.5% to the net revenues of DLF.

DLF is taking up strong initiatives to mend its debt profile. It is looking to raise PE funds at project level and is also exploring to partially monetize its rental assets to reduce the existing debt pile.

The recent JV between DLF's Home Developers arm – 'DHDL' and GIC of \$300 mn is expected to benefit DLF in many ways.

by retail chains in the new stores. However, few projects would do well due to limited supply. Recently, DLF has completed pre-leasing of its project 'Mall of India' in Noida. This is one of the largest malls in the country with an area of 1.8 msf. It could generate an annual lease income of Rs. 400 Crores for DLF.

Total leased area as on Q1FY16 was 48 msf, which is expected to increase to 50 msf by FY16E. Commissioning of Mall of India would come in as a major boost, for which prelease is already done. Moreover, the company has a land bank with a total leasable area of another 48 msf for the next 3-4 years. Going forward, the monthly lease rental income is expected to remain stable at Rs. 50-60/sq. ft. As of 31st March, 2015, the occupancy rate for the Company's leased offices, SEZ and retail portfolio properties were ~92.5%. In FY15, DLF generated a rental (annuity like) income of Rs. 1,950 Crores per annum. This is expected to grow at a CAGR of 10% to reach ~ Rs. 2,360 Crores by FY17E.

Divestment of non-core assets to improve debt profile

During Q1FY16, DLF's net debt rose by Rs 633 Crores to reach ~Rs. 21,600 Crores despite its plans to bring down the debt to Rs. 16,000 Crores levels. However, it is looking to raise private equity funds at project level to reduce debt in the near future. It is also exploring the possibility of partially monetising its rental assets, comprising of about 30 msf with Rs. 2,400 Crores of annual rental income, for reduction in debt. Further, DLF's plan to raise about Rs. 10,000 Crores by selling stakes in two residential projects and monetizing its profitable portfolio of rental assets could well be the turnaround plan investors have been waiting for as India's most valuable realty firm battles both a massive debt pile-up and a slowdown in the real estate sector.

DLF is expected to float India's first Real Estate Investment Trust (REIT) to raise an estimated Rs. 6,000 Crores over the next two years. The company will form two REIT platforms to monetise 30 msf of commercial assets —both office and retail. It will file for a domestic REIT listing in the current fiscal, most likely in Q4FY16.

However, the company's plans do not provide any firm visibility on the debt reduction, also it plans to incur capex in its Gurgaon projects. Hence, we do not factor in any near term debt reduction and expect it to reach Rs. 22,800 Crores by FY17E.

GIC deal bodes well for the company

Recently, DLF's Home Developers arm entered into a \$300 million joint venture with Singapore's sovereign wealth fund GIC to invest in two upcoming projects located in Central Delhi. Both of these projects will be developed under DHDL. GIC will invest a sum of ~Rs. 1,990 Crores while DLF will undertake the project development. GIC's experience of investing in integrated developments across the globe is expected to benefit the JV manifold. The inflow of long-term capital is proof of DLF's leadership in the real estate development space. We expect DLF to benefit from such project level investments as it will lead to unlocking of embedded value in many of DLF's development projects without wielding pressure on its books.

DLF is now planning to sell premium projects along with the unsold area in the near completion/ completed projects to aid its margins.

The company's net revenue declined by 7.8% to Rs. 7,649 Crores in FY15 from Rs. 8,298 Crores last year. EBITDA increased by 21.7% to Rs. 3,024 Crores YoY. PAT fell by 16% YoY to Rs. 540 Crores during the last fiscal.

On consolidated basis, DLF reported a 29% YoY growth in its net revenues on the back of increase in the sales booking value from the development segment.

Development business to be scaled down

Owing to slower sales, there were lukewarm multiyear low collections for DLF in FY15. In the past three years, DLF has delivered 27 msf under its development portfolio and plans to deliver another 20 msf in the next 12-15 months. However, area under construction has come down from a peak of 55 msf to 36 msf as of June 2015. Due to this, DLF now proposes to sell premium projects along with the unsold area in the near completion/completed projects to protect margins.

Key litigations: Updates

1. DLF has deposited Rs. 525 Crores of deposits with the Supreme Court in the ongoing case with the CCI (Competition Commission of India) since August 2011, whereby the regulator had found DLF violating fair trade norms and had imposed a fine of Rs. 630 Crores following a complaint by the Belaire Owners' Association in Gurgaon. The case was listed in the Supreme Court on March 17, 2015.
2. Case with SEBI (order passed in October 2014 for disclosures in IPO in 2007): SEBI had banned DLF, its promoters and some key employees from accessing the capital markets. The SAT (Securities Appellate Tribunal) overturned the order passed by SEBI in March 2015. SEBI has filed an appeal in the Supreme Court in April 2015, the hearing for which is pending.

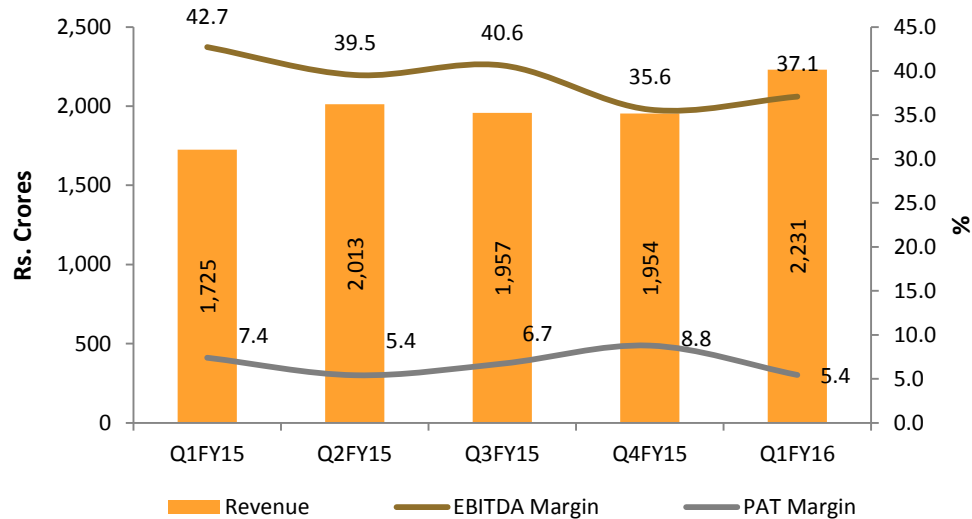
Unimpressive performance in FY15

On a consolidated basis, DLF reported net revenues of Rs. 7,649 Crores in FY15, a decrease of 7.8% over Rs. 8,298 Crores in FY14. EBITDA stood at Rs. 3,024 Crores, registering an increase of 21.7% from Rs. 2,485 Crores in the previous year. The rise in EBITDA was due to the decline in cost of revenues including cost of lands, plots, development rights, constructed properties and others that decreased to Rs. 3,285 Crores as against Rs. 3,880 Crores in FY14. Employee costs decreased to Rs. 349 Crores registering a decline of 39.4% as against Rs. 576 Crores in FY14. Depreciation, amortization and impairment charges were at Rs. 545 Crores as compared to Rs. 663 Crores in FY14. Finance costs decreased to 2,304 Crores from 2,463 Crores in FY14. Net profit was at Rs. 540 Crores, a decline of 16% from Rs. 646 Crores. The EPS for FY15 stood at Rs. 3 as compared to Rs. 3.6 for FY14.

Bottom-line disappointed despite a growth in top-line in Q1FY16

Despite registering a 29% YoY growth in the consolidated top-line, DLF put forth a dismal show as regards to its bottom-line which declined by ~5% from Rs. 128 Crores in Q1FY15 to Rs. 122 Crores in Q1FY16. It garnered revenues worth Rs. 2,231 Crores in Q1FY16 as compared to Rs. 1,725 Crores in the corresponding quarter of FY15. The growth in sales came on the back of increase in the sales booking value from the development segment. During the quarter under review, 0.16 msf of sales booking worth Rs. 1,035 Crores were made as against 0.38 msf sales for only Rs. 308 Crores in Q1FY15. EBITDA of the firm grew by 12.3% YoY and stood at Rs. 827 Crores.

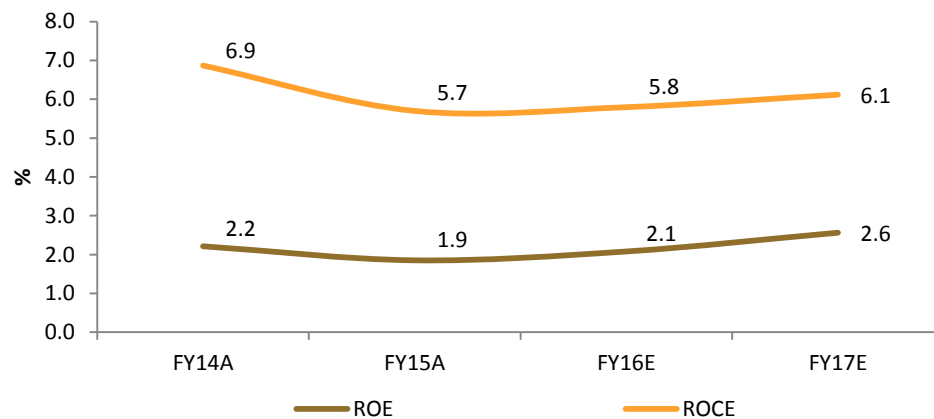
Quarterly performance trend



Key Risks:

- Highly leveraged company with the current D/E at 0.6x.
- Huge land capex and meeting burgeoning interest payments obligations has impacted the free cash flows.
- Result of the SEBI’s pending case in the SC in which SEBI banned DLF and its promoters from accessing the capital markets.

Return ratios trend



Balance Sheet (Consolidated)

Y/E (Rs. Crore)	FY14A	FY15A	FY16E	FY17E
Share Capital	356.3	356.4	356.4	356.4
Preference Share Capital	1,799.2	1,799.2	1,799.2	1,799.2
Reserves and surplus	27,038.6	27,012.5	27,943.5	28,307.3
Net Worth	29,194.1	29,168.1	30,099.1	30,462.9
Minority Interest	202.3	174.7	212.2	252.3
Debt	16,583.3	20,701.4	21,053.9	22,799.7
Non-current liabilities	2,269.8	2,564.3	2,652.5	2,729.4
Total Equity & Liabilities	48,249.5	52,608.4	54,017.7	56,244.3
Fixed Assets	17,637.8	18,412.9	18,000.6	17,587.7
Capital WIP	5,867.3	5,597.6	5,877.5	6,171.4
Goodwill	1,196.8	1,205.8	1,205.8	1,205.8
Investments	486.8	691.1	691.1	691.1
Net deferred taxes	1,017.8	1,510.8	1,813.0	2,084.9
Other non-current assets	3,872.9	4,762.4	4,762.4	4,762.4
Net Current Assets	18,170.1	20,427.7	21,667.3	23,741.0
Total Assets	48,249.5	52,608.4	54,017.7	56,244.3

Profit & Loss Account (Consolidated)

Y/E (Rs. Crore)	FY14A	FY15A	FY16E	FY17E
Net Sales	8,298.0	7,648.7	8,490.1	9,339.1
Expenses	5,812.8	4,625.0	5,445.7	5,990.3
EBITDA	2,485.2	3,023.7	3,044.4	3,348.8
Other Income	1,491.5	519.4	524.6	529.9
Depreciation	662.9	544.8	437.4	437.9
EBIT	3,313.9	2,998.4	3,131.6	3,440.8
Interest	2,463.3	2,303.9	2,400.9	2,521.6
Exceptional Item	329.9	67.9	0.0	0.0
Profit Before Tax	520.8	626.6	730.7	919.2
Tax	(83.6)	157.6	190.0	239.0
Minority Interest	56.5	33.3	37.8	47.6
P/L from Associates	7.1	(3.4)	5.0	6.3
E/o income/ (expense)	(21.8)	41.3	42.5	46.7
Net Profit	646.2	540.2	626.0	780.9

Key Ratios (Consolidated)

Y/E	FY14A	FY15A	FY16E	FY17E
EBITDA Margin (%)	29.9	39.5	35.9	35.9
EBIT Margin (%)	39.9	39.2	36.9	36.8
NPM (%)	7.8	7.1	7.4	8.4
ROCE (%)	6.9	5.7	5.8	6.1
ROE (%)	2.2	1.9	2.1	2.6
EPS (₹)	3.6	3.0	3.5	4.4
P/E (x)	46.6	40.8	35.2	28.2
BVPS (₹)	165.0	164.7	168.9	160.9
P/BVPS (x)	1.0	0.8	0.7	0.8
EV/EBITDA (x)	18.5	13.8	14.4	13.4

Valuation and view

Over a last few years, DLF's performance has been impacted by the continued weakness in the residential segment across different cities. Albeit, lower sales volumes, worsening balance sheet, with increasing debt and consistently negative operational cash flows continue to be the biggest concern but the company's persistent efforts to bring down its debt is expected to fructify in the near term to certain extent.

We expect its revenue and PAT to report a CAGR of 10% by FY17E. Its RoE and RoCE are expected to show marginal improvement and remain at 2.6% and 6.1%.

At the current market price of Rs. 124, the stock trades at a P/E of 35.2x and 28.2x for FY16E and FY17E respectively. We assign a forward P/E of 35x and recommend 'BUY' on the stock with a target potential of 20%, from 12 months perspective.

Disclaimer : This document has been prepared by Funds India and Dion Global Solution Ltd. (the company) and is being distributed in India by Funds India. The information in the document has been compiled by the research department. Due care has been taken in preparing the above document. However, this document is not, and should not be construed, as an offer to sell or solicitation to buy any securities. Any act of buying, selling or otherwise dealing in any securities referred to in this document shall be at investor's sole risk and responsibility. This document may not be reproduced, distributed or published, in whole or in part, without prior permission from the Company.

© Copyright – 2015 - Dion Global Solution Ltd and Funds India.

Contact Us:

Funds India

H.M Center, Second Floor, 29,
Nungambakkam High Road, Nungambakkam,
Chennai - 600 034.

T: +91 7667 166 166

Email: contact@fundsindia.com