AXIS DIRECT

6 JUN 2017 Quarterly Update

DLF

REAL ESTATE

HOLD

Target Price: Rs 190

Muted quarter; closing in on DCCDL deal

DLF booked **muted pre-sales** of Rs 4 bn in Q4FY17. Management reiterated that **demandremains weak** after demonetization and,**will take 4-6 quarters to revive**. With weak collections and plan to spend ~Rs30bnfor completing ongoing projects, DLF may face cash flow deficit over next few quarters, **pushing itsdebt further up (debt already up by ~Rs 7 bn in Q4)**.

While operations remain subdued, **DLF is in the last leg of closure of DCCDL# transaction (promoters' stake sale); expected to conclude by H1FY18, the deal is a near term trigger**. Promoter infusing the sale proceeds from DCCDL in DLF and the subsequent equity raising will address concerns over DLF's leverage. We roll forward our valuation to arrive at our revised **TP of Rs 190** (vs. Rs 165 earlier).

CMP	: Rs 194
Potential Upside	: -2%

MARKET DATA

No. of Shares	: 1,784mn
Free Float	: 25%
Market Cap	: Rs347bn
52-week High / Low	: Rs216 / Rs101
Avg. Daily vol. (6mth)	: 10.7 mn shares
Bloomberg Code	: DLFU IB Equity
Promoters Holding	: 75%
FII / DII	: 18% / 1%

Key highlights

- **Update on promoters' stake sale in DCCDL**: GIC is expected to complete due diligence in the next few weeks. Concurrently, legal documentation is in progress. The deal is subject to shareholders and regulatory approvals (mainly CCI).Management expects the deal to be signed in 1-2 quarters and cash inflow into DLF by Q3FY18
- **DevCo**: During Q4FY17, the companybooked **muted sales of Rs4bn** (net of cancellations), largely driven by its Gurgaon phase V project. Management has maintained weak outlook for its micro markets
- **RentCo**:**Net leasing remained steady at 0.6 msf** during Q4. There is nil inventory in most of its projects(presently inventory only in Silokheraand Kolkata).DLF has **guided for rental income of Rs 29 bn** in FY18 (Rs 26.5 bn in FY17). Exit rentals at DCCDL stood at Rs 23.5 bn as of end Q4FY17
- Management has **refrained from giving pre-sales guidance for FY18** due to uncertainty regarding RERA and weak demand environment after demonetization
- Management highlighted that **GST would result in ~2% increase in the cost,** which will be passed on to customers. However, it remains uncertain on implementation of GST and RERA

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Revenue (Rs mn)	99,256	82,212	86,548	95,218
Adj PAT (Rs mn)	3,062	7,148	3,788	4,540
EPS (Rs.)	1.7	4.0	2.1	2.5
Change YOY (%)	(41.6)	133.4	(47.0)	19.9
Net Debt (Rs mn)	235,117	255,408	272,321	287,475
Networth (Rs mn)	240,691	245,728	247,698	250,059
RoE (%)	1.2	2.9	1.5	1.8
RoCE (%)	7.2	6.6	6.5	6.9
P/E (x)	113.2	48.5	91.6	76.4
P/B (x)	1.4	1.4	1.4	1.4

Source: Company, Axis Capital# DCCDL - DLF Cyber City Developers Ltd.

Key drivers

	4Q'17	4Q'16	YoY	3Q'17	QoQ
Sales value (Rsbn)	4.0	11.3	-65%	2.7	48%
Area leased (msf)	0.64	0.40	60%	0.25	156%
Net debt ^ (Rsbn)	251	222	13%	244	3%

^ as per IGAAP

Price performance

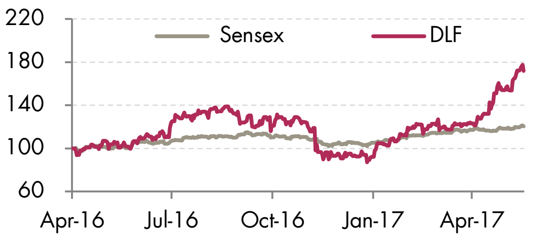

Exhibit 1: Results update

	Quarter ended					12 months ended		
(Rsmn)	Mar-17	Mar-16	% Chg	Dec-16	% Chg	FY18E	FY17	% Chg
Net Sales	**22,252**	**25,465**	**(13)**	**20,579**	**8**	**86,548**	**82,212**	**5**
EBIDTA	**7,102**	**7,133**	**(0)**	**9,578**	**(26)**	**36,189**	**34,333**	**5**
Other income	2,862	1,863	54	1,200	139	7,000	7,193	(3)
PBIDT	9,964	8,996	11	10,778	(8)	43,189	41,526	4
Depreciation	1,402	1,493	(6)	1,420	(1)	6,244	5,725	9
Interest	7,383	6,468	14	7,586	(3)	30,756	29,798	3
Exceptional items	941	(1,187)	-	-	-	-	4,293	(100)
PBT	**2,121**	**(152)**	**(1,491)**	**1,771**	**20**	**6,190**	**10,295**	**(40)**
Tax	537	1,646	-	516	-	1,547	2,293	(33)
PAT	**1,583**	**(1,798)**	**(188)**	**1,256**	**26**	**4,642**	**8,003**	**(42)**
Minority interest	(65)	(9)	597	7	(976)	(68)	(68)	-
Share of profit/ loss in assoc.	(157)	(313)	-	(267)	-	(923)	(923)	-
Adj. PAT after MI	**1,491**	**(2,102)**	**(171)**	**981**	**52**	**3,788**	**7,148**	**(47)**
Prior period adjustments (net)	-	-		-	-	-	-	-
Reported PAT after MI	**1,491**	**(2,102)**	**(171)**	**981**	**52**	**3,788**	**7,148**	**(47)**
No. of shares (mn)	1,784	1,781	-	1,784	-	1,698	1,698	-
EBIDTA margins (%)	32	28	14	47	(31)	42	42	0
PBIDT margins (%)	45	35	27	52	(15)	50	51	(1)
EPS - annualized (Rs.)	**3**	**(5)**	**(171)**	**2**	**52**	**2**	**4**	**(47)**

Source: Company, Axis Capital Note: Above financials are as per Ind AS. Q4FY16 and FY16 financials are as per Indian GAAP

Other highlights

- On weak collections and continued spend towards construction and overheads (including interest), the company faced cash flow deficit in Q4 (on the expected lines), **increasing the debt by Rs 7 bn to** Rs 251bn (includes net debt of Rs 70 bn in DCCDL)
- Valuation of DCCDL will be finalized on the basis of financials one month before signing the deal
- **Impact of demonetization**: The management believes it will take 4-6 quarters for normalcy to return to the residential segment. However, the company continues to focus on execution and create finished inventory, which it believes would draw customers
- The company does not plan to launch new projects in the near term
- The company has ~Rs 140 bn of inventory in its ongoing projects which includes ~Rs 30 bn of inventory in ready projects (mostly commercial projects)
- DLF **handed over 3.5msf of area** in Q4 and 14.5 msf in FY17 (vs. ~14 msf in FY16). The company remains focused on its strategy of executing its ongoing projects to create finished un-launched inventory
- The company **has two commercial projects under construction**: (1) **Chennai IT SEZ (1.60 msf)** where it has started to construct the remaining towers and (2) **Cyber Park (2.5 msf)**which is seeing continued progress in execution. These projects will add ~Rs 4.3 bn of rental income in FY19/20

Exhibit 2: Sales and leasing performance in Q4FY17

	Q4FY17	Q3FY17	Q2FY17	Q1FY17
DevCo				
Sales (Rsbn)				
Gurgaon Phase V	3.15	5.6	2.6	2.6
New Gurgaon	0.45	0.25	1.05	0.9
Delhi/ Rest of India	1.9	0.75	0.75	1.2
Total gross sales (Rsbn)	5.5	6.6	4.4	4.7
Less: Cancellations/ upgrades (Rsbn)	1.5	3.9	1.35	2.65
Total net sales (Rsbn)	**4.0**	**2.7**	**3.05**	**2.05**
RentCo				
Gross leasing (msf)	1.24	0.79	1.14	0.86
Less: lease terminations/ expiry (msf)	0.6	0.55	1.1	0.91
Net leasing (msf)	**0.64**	**0.24**	**0.04**	**-0.05**

Source: Company

Exhibit 3: Debt status

(Rsbn)	Q3FY17	Q4FY17	Net change
	Ind AS	Ind AS	IGAAP
Opening gross debt	272.2	278.2	
Less: Repayment during the quarter	(6.5)	(15.8)	
Add: New loans	12.4	34.0	
Gross debt as per Balance Sheet	**278.2**	**296.4**	
Less: Equity shown as debt/ JV co debt	0.0	0.04	
Less: Ind AS impact	(3.5)	(4.4)	
Gross debt position (Net of Equity shown as Debt/ JV of Co. Debt)	**274.7**	**292.0**	
Less: Cash in hand	(30.7)	(41.0)	
Net debt at the end of the quarter	**244.0**	**251.0**	**7.0**

Source: Company

Financial summary (Consolidated)

Profit &loss (Rsmn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	99,256	82,212	86,548	95,218
Other operating income	-	-	-	-
Total operating income	**99,256**	**82,212**	**86,548**	**95,218**
Cost of goods sold	(45,579)	(34,658)	(36,930)	(40,842)
Gross profit	53,678	47,555	49,618	54,376
Gross margin (%)	*54.1*	*57.8*	*57.3*	*57.1*
Total operating expenses	(13,706)	(13,222)	(13,429)	(14,599)
EBITDA	**39,972**	**34,333**	**36,189**	**39,776**
EBITDA margin (%)	*40.3*	*41.8*	*41.8*	*41.8*
Depreciation	(7,659)	(5,725)	(6,244)	(6,494)
EBIT	**32,313**	**28,608**	**29,946**	**33,283**
Net interest	(26,798)	(29,798)	(30,756)	(33,090)
Other income	6,714	7,193	7,000	7,000
Profit before tax	**10,263**	**10,295**	**6,190**	**7,192**
Total taxation	(5,642)	(2,293)	(1,547)	(1,798)
Tax rate (%)	*55.0*	*22.3*	*25.0*	*25.0*
Profit after tax	4,620	8,003	4,642	5,394
Minorities	11	68	68	68
Profit/ Loss associate co(s)	(1,569)	(923)	(923)	(923)
Adjusted net profit	3,062	7,148	3,788	4,540
Adj. PAT margin (%)	*3.1*	*8.7*	*4.4*	*4.8*
Net non-recurring items	-	-	-	-
Reported net profit	3,062	7,148	3,788	4,540

Balance sheet (Rsmn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	3,567	3,568	3,568	3,568
Reserves & surplus	237,123	242,160	244,130	246,491
Net worth	240,691	245,728	247,698	250,059
Borrowing	268,930	296,400	313,314	328,467
Other non-current liabilities	14,803	16,094	16,094	16,094
Total liabilities	**525,685**	**559,461**	**578,344**	**595,859**
Gross fixed assets	269,469	266,096	276,840	287,833
Less: Depreciation	(41,969)	(47,694)	(53,938)	(60,431)
Net fixed assets	227,500	218,402	222,902	227,402
Add: Capital WIP	12,607	19,418	19,818	20,218
Total fixed assets	240,107	237,820	242,720	247,620
Total Investment	30,212	22,202	22,202	22,202
Inventory	168,342	199,491	219,440	241,422
Debtors	34,868	37,193	39,154	43,076
Cash & bank	33,813	40,993	40,993	40,993
Loans & advances	14,987	9,997	9,997	9,997
Current liabilities	91,620	83,846	92,106	105,735
Net current assets	174,692	220,452	234,436	247,050
Other non-current assets	80,673	78,986	78,986	78,986
Total assets	**525,685**	**559,461**	**578,344**	**595,859**

Source: Company, Axis Capital

Cash flow (Rsmn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	10,263	10,295	6,190	7,192
Depreciation & Amortisation	7,659	5,725	6,244	6,494
Chg in working capital	*118,100*	*(38,581)*	*(13,983)*	*(12,614)*
Cash flow from operations	**83,126**	**7,991**	**27,727**	**32,432**
Capital expenditure	*(5,954)*	*(3,438)*	*(11,144)*	*(11,394)*
Cash flow from investing	**(19,443)**	**3,650**	**(12,066)**	**(12,316)**
Equity raised/ (repaid)	*(52,582)*	*1,321*	-	-
Debt raised/ (repaid)	*23,990*	*27,470*	*16,914*	*15,154*
Dividend paid	*(1,470)*	*(3,431)*	*(1,818)*	*(2,179)*
Cash flow from financing	**(57,346)**	**(4,461)**	**(15,660)**	**(20,116)**
Net chg in cash	6,337	7,179	-	-

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	1.7	4.0	2.1	2.5
CEPS (Rs)	6.0	7.2	5.6	6.2
DPS (Rs)	0.7	1.6	0.8	1.0
Dividend payout ratio (%)	40.0	40.0	40.0	40.0
GROWTH				
Net sales (%)	36.2	(17.2)	5.3	10.0
EBITDA (%)	32.2	(14.1)	5.4	9.9
Adj net profit (%)	(38.6)	133.4	(47.0)	19.9
FDEPS (%)	(41.6)	133.4	(47.0)	19.9
PERFORMANCE				
RoE (%)	1.2	2.9	1.5	1.8
RoCE (%)	7.2	6.6	6.5	6.9
EFFICIENCY				
Asset turnover (x)	0.2	0.2	0.2	0.2
Sales/ total assets (x)	0.2	0.1	0.1	0.1
Working capital/ sales (x)	2.0	1.9	2.2	2.1
FINANCIAL STABILITY				
Total debt/ equity (x)	1.0	1.2	1.3	1.3
Net debt/ equity (x)	0.9	1.0	1.1	1.1
Current ratio (x)	2.9	3.6	3.5	3.3
Interest cover (x)	1.2	1.0	1.0	1.0
VALUATION				
PE (x)	113.2	48.5	91.6	76.4
EV/ EBITDA (x)	14.6	17.6	17.1	16.0
EV/ Net sales (x)	5.9	7.3	7.2	6.7
PB (x)	1.4	1.4	1.4	1.4
Dividend yield (%)	0.4	0.8	0.4	0.5
Free cash flow yield (%)	0.2	-	-	0.1

Source: Company, Axis Capital

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, authors (Research team) and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associates do not have any material conflict of interest. I/we have not served as director, officer or employee in the subject company.

Research Team

Sr. No	Name	Designation	E-mail
1	Akhand Singh	Research Analyst	akhand.singh@axissecurities.in
2	Poonam Darade	Research Associate	poonam.darade@axissecurities.in

5. ASL or its associates has not received any compensation from the subject company in the past twelve months. ASL or its Research Analysts has not been engaged in market making activity for the subject company.

6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

i. Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;
ii. Managed or co-managed public offering of the securities from the subject company of this research report and / or;
iii. Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advise necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 18002100808/022-61480808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkarMarg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-42671582.