DLF

BUY

INDUSTRY	**REAL ESTATE**
CMP *(as on 10 Nov 2017)*	**Rs 208**
Target Price	**Rs 236**
Nifty	10,322
Sensex	33,315
KEY STOCK DATA	
Bloomberg	DLFU IN
No. of Shares (mn)	1,784
MCap (Rs bn) / ($ mn)	371/5,695
6m avg traded value (Rs mn)	2,175

STOCK PERFORMANCE (%)			
52 Week high / low			**Rs 218/101**
	3M	6M	12M
Absolute (%)	26.3	4.3	65.7
Relative (%)	20.7	(5.9)	44.6

SHAREHOLDING PATTERN (%)	
Promoters	74.95
DIIs & Local MFs	1.31
FPIs	16.67
Public & Others	7.07

Source : BSE

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Residential recovery awaited

DLF's 2QFY18 PAT came in 81% below estimates, on account of weak residential revenue recognition. No green shoots yet on B/S recovery, as (1) DLF has reopened sales only from 1-Nov-2017, post RERA compliance, (2) This impacted pre-sales over last 5 months (sales were closed since 1-May-2017), (3) Net cancellation of Rs 1.3bn, (3) Weak collections and a step-up in construction of projects nearing completion have resulted in Rs 17bn increase in net debt vs FY17.

With projects re-opening, pre-sales will pickup from 3QFY18E. Further, GIC has received CCI approvals for DCCDL deal and fund flow including that from DLF Promoter/QIP is expected in FY18E.

As the impact of demonet has receded, we reduce the land bank discount of 10-15%. We maintain BUY with increased NAV- based TP of Rs 236/sh.

Highlights of the quarter

- **Residential segment weakness hit profitability:** Weak pre-sales in the residential segment impacted revenue recognition and profitability. Gross leasing stood at 1.75mn sqft, and net leasing (post 1.38mn sq ft termination/expiry) was at 0.38mn sqft. In 1HFY18, net lease stood at 0.58mn sq ft.
- **Inventory worth Rs 150bn nearing completion is key for re-rating:** DLF has ~Rs 150bn of high-value inventory nearing completion, encompassing saleable area of 15mn sq ft. Of this, ~67% is in NCR, and is high value. We remain cautious on the residential segment's recovery.
- **DCCDL stake sale to reduce net D/E to 0.33x vs 1.1x currently:** We expect funds inflow of Rs 129bn including Promoter/QIP funds infusion into DLF by FY18E. This shall reduce DLF's debt by 50%, and net D/E from 1.1x to 0.31x.

Financial Summary*

Y/E March (Rs mn)	2QFY18	2QFY17	*YoY (%)*	1QFY18	*QoQ (%)*	FY17	FY18E	FY19E	FY20E
Net Sales	15,877	20,707	*(23.3)*	20,477	*(22.5)*	82,212	74,128	80,136	84,657
EBITDA	7,869	10,204	*(22.9)*	9,031	*(12.9)*	34,333	34,820	38,113	40,429
APAT	142	2,061	*(93.1)*	1,107	*(87.2)*	5,028	2,643	4,081	6,500
Diluted EPS (Rs)	0.1	1.2	*(93.1)*	0.6	*(87.2)*	2.8	1.5	2.3	3.7
P/E (x)						73.6	140.0	90.7	56.9
EV / EBITDA (x)						18.1	18.4	17.1	16.1
RoE (%)						3.0	1.1	1.6	2.6

Source : Company, HDFC sec Inst Research, * Consolidated

PAT came in 81% below estimates, on account of a sharp drop in residential sales, as demand for luxury housing remains muted

DLF had stopped pre-sales from 1-5-2017 on account of RERA compliance, and hence net pre-sales for 2Q/1HFY18 stood at Rs(550)/(1,250)mn. Negative on account of cancellations

DLF has now opened sales across projects from 1st Nov 2017 which may result in improved pre-sales traction on Rs 150bn of nearing completion inventory

2QFY18 net debt increased Rs 9bn QoQ to Rs268bn, and net D/E stood at1.08x. Gross debt is Rs 290bn

Owing to weak traction in the residential segment, we have cut DLF's FY18/19E revenue estimate by 9-12%. This has resulted in 24-28% cut in net profit estimates

Quarterly Financial Snapshot (Consolidated)

Particulars	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)	1HFY18	1HFY17	YoY (%)
Net Sales	**15,877**	**20,707**	***(23.3)***	**20,477**	***(22.5)***	**36,354**	**39,381**	***(7.7)***
Material Expenses	(5,079)	(7,332)	*(30.7)*	(8,636)	*(41.2)*	(13,715)	(16,300)	*(15.9)*
Employee Expenses	(747)	(734)	*1.7*	(783)	*(4.5)*	(1,530)	(1,477)	*3.6*
Other Operating Expenses	(2,182)	(2,437)	*(10.4)*	(2,027)	*7.6*	(4,209)	(3,953)	*6.5*
EBITDA	**7,869**	**10,204**	***(22.9)***	**9,031**	***(12.9)***	**16,900**	**17,653**	***(4.3)***
Interest Cost	(7,946)	(7,351)	*8.1*	(7,827)	*1.5*	(15,773)	(14,829)	*6.4*
Depreciation	(1,484)	(1,441)	*3.0*	(1,449)	*2.4*	(2,933)	(2,903)	*1.0*
Other Income	1,636	1,611	*1.6*	1,635	*0.0*	3,271	6,483	*(49.5)*
PBT	**75**	**3,023**	***(97.5)***	**1,391**	***(94.6)***	**1,466**	**6,403**	***(77.1)***
Tax	159	(690)	*(123.0)*	(179)	*(188.8)*	(20)	(1,240)	*(98.4)*
Minority Interest	16	15	*7.4*	16	*0.0*	32	11	
Share of associates	(108)	(287)	*(62.4)*	(121)	*(10.7)*	(229)	(499)	***(54.1)***
PAT	**142**	**2,061**	***(93.1)***	**1,107**	***(87.2)***	**1,249**	**4,675**	***(73.3)***

Source: Company, HDFC sec Inst Research

Margin Analysis (Consolidated)

MARGIN ANALYSIS	2QFY18	2QFY17	YoY (bps)	1QFY18	QoQ (bps)	1HFY18	1HFY17	YoY (bps)
Material Expenses % Net Sales	32.0	35.4	*(341.8)*	42.2	*(1,018.6)*	37.7	41.4	*(366.2)*
Employee Expenses % Net Sales	4.7	3.5	*115.8*	3.8	*88.4*	4.2	3.7	*45.7*
Other Ope Expenses % Net Sales	13.7	11.8	*197.6*	9.9	*384.4*	11.6	10.0	*154.1*
EBITDA Margin (%)	49.6	49.3	*28.3*	44.1	*545.8*	46.5	44.8	*166.3*
Tax Rate (%)	(212.0)	22.8	-	12.9	-	1.4	19.4	-
APAT Margin (%)	0.9	10.0	*(905.7)*	5.4	*(451.3)*	3.4	11.9	*(843.5)*

Source: Company, HDFC sec Inst Research

Change In Estimates

	FY18E-New	FY18E-Old	% Change	FY19E-New	FY19E-Old	% Change
Pre-sales (mn sqft)	0.8	0.9	*(11.3)*	1.2	1.3	*(7.8)*
Realization (Rs/sqft)	13,156	23,656	*(44.4)*	25,964	24,964	*4.0*
Pre-sales (Rs mn)	10,327	20,935	*(50.7)*	30,819	32,129	*(4.1)*
Revenues (Rs mn)	74,128	84,215	*(12.0)*	80,136	88,551	*(9.5)*
EBITDA (Rs mn)	34,820	36,228	*(3.9)*	38,113	38,399	*(0.7)*
APAT (Rs mn)	2,643	3,479	*(24.0)*	4,081	5,705	*(28.5)*
EPS (Rs)	1.5	2.0	*(24.0)*	2.3	3.2	*(28.5)*

Source: Company, HDFC sec Inst Research

Demonetisation, high unaffordabilty and drying up of new launches shall result in 11% pre-sales decline during FY18E

Realisation to be driven by Gurgaon Phase V projects

Rental income is 7.8% FY18-20E CAGR, on account of recalibration of existing rentals higher and new lease signups

Revenue from Residential sales to be muted, as inventory nearing completion will have longish sales velocity. Approx Rs 150bn Residential inventory is expected to be completed in by Sep-18E, and Rs 30bn is already completed and unsold (largely commercial)

We have estimated 56.8% EPS CAGR over FY18-20E, as interest expense stabilise

Key Assumptions And Estimates

Summary Of Key Assumptions And Estimates

	Estimates			Growth (%)			Comments
	FY18E	FY19E	FY20E	*FY18E*	*FY19E*	*FY20E*	
Residential (mn sqft)	0.8	1.2	1.4	*82.7*	*51.2*	*14.6*	New launches driven by 1.5mn in Phase V Gurgaon, 3mn sq ft in new Gurgaon and 3mn sq ft in the rest of India over FY18-19E
Average rate (Rs/sqft)	13,156	25,964	22,405	*(51.3)*	*97.4*	*(13.7)*	
Sales value (Rs mn)	10,327	30,819	30,471	*(11.0)*	*198.4*	*(1.1)*	
New leasing (mn sqft)	0.9	1.1	1.2	*2.3*	*22.2*	*9.1*	New addition of 1-1.5 mn sqft annually
Rental Income							
Gross area for lease (mn sqft)	31.8	32.3	32.8	*1.6*	*1.6*	*1.5*	
Average occupancy %	95.8	97.7	99.9	*1.4*	*2.0*	*2.2*	
Leased space (mnsf)	30.5	31.6	32.8	*3.0*	*3.6*	*3.8*	Occupancy to remain stable
Average Rental (Rs/sqft/month)	76.6	81.5	82.8	*3.3*	*6.4*	*1.6*	
Rental income (Rs mn)	28,043	30,917	32,609	*6.4*	*10.3*	*5.5*	7.8% FY18-20E rental income CAGR
Earnings forecast							
Residential Sales (Rs mn)	46,085	49,219	52,048	*(17.5)*	*6.8*	*5.7*	6.3% FY18-20E CAGR. Includes all income except lease rentals
Rental income (Rs mn)	28,043	30,917	32,609	*6.4*	*10.3*	*5.5*	
Total	**74,128**	**80,136**	**84,657**	***(9.8)***	***8.1***	***5.6***	**6.9% FY18-20E income CAGR**
EBIDTA (Rs mn)	34,820	38,113	40,429	*1.4*	*9.5*	*6.1*	7.8% CAGR for FY18-20E
EBIDTA Margin (%)	*47.0*	*47.6*	*47.8*	*521.2bps*	*58.7bps*	*19.6bps*	Margins to expand in FY18E, as low margins legacy project is getting completed
Net interest expense*	31,584	32,167	31,584	*6.0*	*1.8*	*(1.8)*	To remain stable
APAT (Rs mn)	2,643	4,081	6,500	*(47.4)*	*54.4*	*59.3*	56.8% CAGR for FY18-20E
APAT Margin (%)	*3.6*	*5.1*	*7.7*	*(255.2)bps*	*152.7bps*	*258.6bps*	

Source: Company, HDFC sec Inst Research

DLF, in its 2QFY18 presentation, has said that the DCCDL Assets and Liabilities shall be de-consolidated from the DLF balance sheet

DLF will follow JV accounting for DCCDL consolidation, and only a share of profits from JV will accrue as a single line item in DLF financials

We have deconsolidated the P&L, and pro-forma profits are substantially higher on account of Rs 12-13bn/yr of saving of interest expense owing to deleveraging

The financial may get de-consolidated from 3QFY18E or latest 4QFY18E

Proforma Profit & Loss – Statement – DCCDL JV accounting

	FY19E	FY20E
Residential (mn sqft)	1.2	1.4
Average rate (Rs/sqft)	25,964	22,405
Sales value (Rs mn)	30,819	30,471
Gross area for lease (mn sqft)	5.9	5.9
Average occupancy %	97.7	99.9
Leased space (mnsf)	5.8	5.9
Average Rental (Rs/sqft/month)	81.5	82.8
Rental income (Rs mn)	5,671	5,890
Earnings forecast	-	-
Residential Sales (Rs mn)	**38,391**	**41,639**
Rental income (Rs mn)	**5,671**	**5,890**
Total	**44,062**	**47,529**
EBIDTA (Rs mn)	**23,148**	**24,871**
EBIDTA Margin (%)	52.5	52.3
Net interest expense*	14,000	14,000
Depreciation	1,209	1,217
Other income	6,640	6,720
Profit from JV (DCCDL)#	**8,000**	**8,240**
PBT	**22,579**	**24,614**
Tax	4,967	5,415
APAT (Rs mn)	**17,612**	**19,199**
Difference in APAT vs Current estimates	**13,531**	**12,699**

Source: Company, HDFC sec Inst Research *expected group debt of Rs140bn post DCCDL stake sale # DCCDL to be consolidated as single line item

GIC will buy DLF's promoter stake in DCCDL. GIC will hold ~33.33% stake in DCCDL post the deal

The deal implies cap rate of 8.4%

Rent co divestment: Deal value implies about 8.4% cap rate

- DLF has entered into an agreement with GIC (Sovereign fund of Government of Singapore) under which GIC will acquire 33.34% equity stake in DLF Cyber City Developers Ltd. (DCCDL).
- The transaction has been agreed at an Enterprise Value of Rs 356,170mn translating into an equity valuation of Rs 302,000mn (net debt attributable to DCCDL is Rs 54,140mn).
- The deal encompasses 26.9mn sqft of leasable area, 2.5mn sqft of area under construction and ~19mn sqft of undeveloped potential (transfer of development rights). The FY18E exit rental is projected to be Rs 22,750mn and FY17 rental stood at Rs 21,400mn.
- Whilst DLF has not given EV split between the rental value and future development potential, we arrive at Rs 32,250mn valuation assuming Rs 1,500/sqft FSI valuation.
- From the deal equity valuation we deduct the value of development potential and arrive at the rental asset value of Rs 269,750mn. This implies 8.4% cap rate.

GIC Stake Sale Implies 8.4% Cap Rate

Rs mn	FY18E
Total DCCDL EV as per deal	356,170
Debt attributable to DCCDL	54,170
Equity Value as per the deal	302,000
Total leased area (mn sqft)	26.9
Exit Rental	22,750
Development potential (mn sqft)	21.5
Total value of development potential @ Rs 1,500/sqft *	32,250
Value attributable to operating rental *	269,750
Implied Cap rate % *	8.4

Source: Company, HDFC sec Inst Research ,* as per HDFC Sec assumptions

Total fund infusion in two stages of corporate action is expected at ~Rs 130bn. This includes Rs 100bn of promoter's fund infusion and Rs 30bn of QIP fund infusion

Promoter/QIP fund infusion into DLF

- Currently the DLF promoters holds 40% in the DCCDL, of this 10% of the shares will be extinguished post the share buy back. Balance 30% share will be sold to GIC, resulting in GIC effective stake of 33.33%. Post buy back this shall result in DLF stake in DCCDL increasing from 60% to 66.66%.
- DLF promoters shall receive about Rs 30bn net of tax post two buybacks for the 10% stake. They will further receive Rs 89bn from the 30% stake sale to GIC translating to Rs 69.4bn post tax.
- DLF promoter shall be infusing Rs 99bn into DLF resulting in current stake of 74.95% going up close to 80%. This shall require further dilution to meet the 75% maximum promoter share holding norm. The dilution will happen through Rs 30bn QIP fund raise.
- Total fund infusion into DLF is expected at ~Rs 130bn. GIC has received CCI approvals and detailed order is awaited. Subject to CP's, GIC funds may come to Promoters and flow to DLF by Dec-2017. QIP may happen in 4QFY18E resulting in total Rs 130bn of fund inflow to DLF. DLF Shareholders have already approved the transaction.

Stage 2: DLF Promoter Inflow Into DLF Along With QIP

Inflow to promoters (Rs mn)	FY18E
Sale of CCPS to GIC equivalent to 33.34% interest in DCCDL	89,000
Tax at 22%	(19,580)
Tranche 1 Buyback by DCCDL of part of CCPS	16,000
Tranche 2 Buyback by DCCDL of part of CCPS	14,000
Total Promoter inflow	99,420
Likely proceeds from QIP	30,000
Total Inflows into DLF	129,420

Source: Company, HDFC sec Inst Research

Our calculation suggests that, post the implementation of stake sale to the institutional investors, DLF will be able to cut its debt by more than 50%

The net D/E will reduce from 1.08x to 0.33x post the deal

Game changer: Net D/E to reduce to 0.33x, Interest cost to half

- In the exhibit below, we have arrived at overall Rs 123.6bn of net debt attributable to DLF.
- The networth of the company will increase post the QIP and Promoter fund infusion. The deleveraging exercise on higher base net worth will result in net D/E reducing from current 1.08x (end 2QFY18) to 0.33x post the fund inflow.
- With the reduction in debt, the interest cost will reduce from current run-rate of Rs 30bn/year to Rs 13.8bn/year. This shall result in savings of Rs 16.2bn.
- The residual debt of Rs 123,570mn will comprise of (1) Rs 54,170mn of DCCDL debt, (2) Rs 40,000mn of debt attributable to rental business of DLF standalone (ex DCCDL, Rental income of Rs 5,000mn) & (3) Rs 29,400mn of residential segment debt.

Net D/E to reduce from 1.05x to 0.31x

Rs mn	FY18E
Current net debt – 2QFY18	2,67,990
Net debt attributable to DCCDL	54,170
DLF net debt - ex DCCDL	2,13,820
Total inflows from promoters	1,29,420
Receipts from transfer under DAL arrangement	15000
DLF net debt ex DCCDL	69,400
DLF net debt attributable to rental assets ex DCCDL	40,000
DLF net debt attributable to residential business	29,400
Overall net debt post the deal	1,23,570
Net worth of DLF - 2QFY18	2,48,280
Net worth of DLF post QIP and Promoter infusion	3,77,700
Current net D/E (x)	1.08
Net D/E post deal (x)	**0.33**
Current interest cost	30,000
Interest rate %	11.54
Post deal interest	13,833
Savings in interest	**16,167**

Source: Company, HDFC sec Inst Research,

The increase in NAV from Rs 200/sh to Rs 236/sh is largely on account of DLF stake going up from 60% to 66.66% in DCCDL, and removal of DLF land bank discount of 10-15% on demonet

Fund infusion to result in dilution

- The Promoter and QIP fund infusion shall result in dilution as highlighted in the exhibit below.
- We have recalibrated the DLF stake in DCCDL from current 60% to 66.66%. Working with the same HDFC Sec EV estimate we reduce the net debt post the deal to arrive at equity valuation of Rs 236/sh.
- We have considered the net debt attributable to the 66.66% stake in DCCDL and added back the DLF debt ex DCCDL.

Net D/E To Reduce From 1.05x To 0.31x

Current shares (mn)	**1,779**
Increase in shares (mn)* - Infusion at CMP of Rs 208 for Rs 129bn Promoter and QIP inflows	622
Shares post dilution (mn)	2,401
Current EV - HDFC Estimates (Rs mn)	6,65,191
Less Net Debt post deal – assumed DLF economic interest of 66.66% in DCCDL (Rs mn)	97,520
Equity Value (Rs mn)	5,67,671
NAV per share (Rs)*	236

Source: Company, HDFC sec Inst Research, * on expanded equity base of 2,401mn shares based on HDFC Sec assumptions

We have roll forward valuation estimate to FY19E, and value the Residential real estate business at Rs 22/share. Commercial annuity assets stand at Rs 93/share, other business at Rs 34/share

Land bank at Rs 128/share

Adding all these, we arrive at gross NAV of Rs 277/sh

We reduce net debt to Rs 41/share to arrive at NAV of Rs 236/share for DLF

We have assumed dilution post the deal, with fresh issue of 622mn shares at CMP of Rs 208/sh. This has been done only for arriving at the valuation. We would await final dilution to incorporate the same in our financial estimates

Valuation: Increase NAV target to Rs 236/sh

SoTP valuation

- We have adopted the DCF methodology to arrive at DLF's NAV/share. We value the Residential real estate business at Rs 22/share, Commercial annuity assets at Rs 93/share, Others - Hospitality and Project management at Rs 34/share, land bank at Rs 128/share and reduce net debt at Rs 41/share to arrive at end-FY19E NAV of Rs 236/share for the company.
- **With the demonetisation effect ebbing, we have removed the land price discount of 10-15% ascribed earlier.**
- We **maintain BUY on DLF with a target price of Rs 236/share**. Our valuation is based on 1x our end-FY19E NAV forecast.

Sum Of The Parts

	Rs mn	Rs/share (New)*	Rs/share (Old)*	Change (Rs/share)	Comments
Gross NAV Residential	53,916	22	22	1	NAV based on the methodology discussed
Gross NAV Commercial	2,23,793	93	87	6	NAV based on the methodology discussed
Other business	80,941	34	28	5	6-8x FY17E EV/EBIDTA
Land Bank	3,06,541	128	104	24	Removed 10-15% demonet discount
Total Gross NAV	**6,65,191**	**277**	**241**	**36**	
Less: Net Debt*	97,520	41	39	2	Expected net debt FY18E, assumed dilution on account of Promoter and QIP. Total funds inflow of Rs129bn will result in debt reduction
NAV	**567,671**	**236**	**202**		
NAV discount (%)		-			
Final NAV		**236**	**202**	**36**	**Increase our SOTP by 15.3%**

Source: Company, HDFC sec Inst Research *we have assumed new shares issue of 622mn at CMP Rs208/sh and arrived per share value

We have used WACC assumption of 14.1% for valuing DLF's Residential business

In commercial office/retail space, we have discounted rentals using 14.1% WACC for the forecasted period and terminal value using the cap rate of 9%

We have valued services/maintenance and other business at 6-8x FY19E EV/EBIDTA

Real estate development: NAV calculation methodology

- We have divided DLF's entire land bank into residential projects (based on the information given by the company)
- We have arrived at the sale price/sq ft. and the anticipated sales volumes for each project based on our discussions with industry experts
- We have deducted the cost of construction based on our assumed cost estimates, which have been arrived at after discussions with industry experts
- We have further deducted marketing and other costs which have been assumed at 5% of the sales revenue
- We have then deducted income tax based on the tax applicable for the project
- The resultant cash inflows at the project level have been discounted, based on WACC of 14.1% (cost of equity 16.8% based on beta of 1.4x & debt/equity ratio of 0.9x). All the project level NAVs have then been summed up to arrive at the NAV of the company
- For commercial office/retail space, we have discounted rentals using 14.1% WACC for the forecasted period and terminal value using the cap rate of 10%
- From the NAV, we have deducted the current net debt to arrive at the final valuation of the company.

Base Case Assumptions

Discount rate	14.1%
Annual rate of inflation-sales price	5%
Annual rate of inflation-cost of construction	6%
Other costs – marketing, SGA, employee cost (as % of sales)	5%
Tax rate (%)	33%

- In the exhibit below, we highlight our sales price and construction cost forecasts. Our pricing assumptions are moderate, and at a 0-10% discount to the current prevailing prices.

Base Property Price And Construction Cost Assumptions

Location	Prices Rs/sq ft	Cost Rs/sq ft
Gurgaon	6,750-19,000	2,000-4,500
Bengaluru	4,500-7,500	2,000-2,500
Delhi Metropolitan Area	9,000-22,500	4,00 -5,500
Chennai	4,050-6,750	2,000-2,500
Hyderabad	4,500-5,500	2,000-2,200
Chandigarh	4,500-5,500	2,000-2,200
Kolkatta	4,500-5,500	2,000-2,200
Others	3,500-5,500	2,000-2,200

Source: Company, HDFC sec Inst Research

1% increase in average base sale price impacts our NAV positively by 1.9%

Every 100bps increase in sale price inflation impacts our NAV positively by 6.2%

100bps increase in cost inputs decreases our NAV by 4.6%

100bps increase in discounting rate impacts our NAV negatively by 3.7%

NAV sensitivity analysis

Sensitivity to our assumption of property prices

- Our model is sensitive to changes in the assumptions regarding property prices. For every 1% change in the base property prices, the NAV will change by approximately 1.9%.

NAV Sensitivity To Change In Average Sales Price

% change in sale price	-10	-5	0	5	10
NAV/share (Rs)	190	213	**236**	259	259
Change in NAV (%)	(19.6)	(9.8)	-	9.5	18.8

Source: Company, HDFC sec Inst Research

Sensitivity of NAV to changes in sales inflation

- In our base case, we have assumed an annual sale price inflation of 5%. For every 100bps increase in the annual sale price inflation, the NAV will increase by approximately 6.2%.

NAV Sensitivity To Change In Sales Inflation

Sales inflation rates (%)	3	4	5	6	7
NAV/share (Rs)	209	222	**236**	251	251
Change in NAV (%)	(11.5)	(6.1)	-	6.2	12.3

Source: Company, HDFC sec Inst Research

Sensitivity of NAV to changes in cost inflation

- In our base case, we have assumed cost inflation at 6%. For every 100bps increase in construction cost inflation, the NAV will change by approximately 4.6%.

NAV Sensitivity To Change In Cost Inflation

Cost inflation rates (%)	4	5	6	7	8
NAV/share (Rs)	257	247	**236**	225	225
Change in NAV (%)	8.9	4.5	-	(4.6)	(9.4)

Source: Company, HDFC sec Inst Research

The combined impact of a 100bps increase in sales price inflation and cost inflation will be an increase in NAV of 1.6%.

Sensitivity of NAV to changes in discount rate

- In our base case, we have assumed a discount rate of 14.1%. For every 100bps increase in the discount rate, the NAV will fall by 3.7%.

NAV Sensitivity To Change In WACC

WACC rates (%)	12	13	14	15	16
NAV/share (Rs)	253	245	**236**	228	228
Change in NAV (%)	7.1	3.5	-	(3.7)	(6.8)

Source: Company, HDFC sec Inst Research

Income Statement: Consolidated

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	**99,256**	**82,212**	**74,128**	**80,136**	**84,657**
Growth (%)	***29.8***	***(17.2)***	***(9.8)***	***8.1***	***5.6***
Material Expenses	45,579	34,658	27,437	29,983	31,282
Employee Expenses	3,152	3,283	3,323	3,390	3,430
Other Operating Expenses	10,553	9,938	8,547	8,650	9,515
EBIDTA	**39,972**	**34,333**	**34,820**	**38,113**	**40,429**
EBIDTA (%)	***40.3***	***41.8***	***47.0***	***47.6***	***47.8***
EBIDTA Growth (%)	***32.2***	***(14.1)***	***1.4***	***9.5***	***6.1***
Other Income	6,714	7,193	6,561	6,640	6,720
Depreciation	7,659	5,725	5,754	6,589	6,737
EBIT	39,027	35,801	35,627	38,164	40,412
Interest	26,798	29,798	31,584	32,167	31,584
Exceptional items	1,967	(4,293)	-	-	-
PBT	**10,263**	**10,295**	**4,043**	**5,997**	**8,828**
Tax	5,642	2,293	890	1,319	1,942
Minority Interest	(11)	(68)	40	45	35
Share of associates loss/(profit)	1,569	923	471	552	351
RPAT	**3,062**	**7,148**	**2,643**	**4,081**	**6,500**
EO items (net of tax)	1,688	2,120	0	0	0
APAT	**1,374**	**5,028**	**2,643**	**4,081**	**6,500**
APAT Growth (%)	***(75.7)***	***266.1***	***(47.4)***	***54.4***	***59.3***
EPS	**0.8**	**2.8**	**1.5**	**2.3**	**3.7**
EPS Growth (%)	***(75.7)***	***266.1***	***(47.4)***	***54.4***	***59.3***

Source: Company, HDFC sec Inst Research

Balance Sheet: Consolidated

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	3,567	3,568	3,568	3,568	3,568
Reserves	2,37,123	2,42,160	2,43,290	2,45,021	2,50,822
Total Shareholders Funds	**2,40,691**	**2,45,728**	**2,46,858**	**2,48,589**	**2,54,390**
Minority Interest	**1,261**	**1,239**	**1,199**	**1,154**	**1,119**
Long Term Debt	2,03,285	2,32,554	2,47,554	2,42,554	2,37,554
Short Term Debt	26,936	34,080	34,080	34,080	34,080
Current Maturities	22,412	25,389	27,027	26,481	25,935
Total Debt	**2,52,633**	**2,92,023**	**3,08,661**	**3,03,115**	**2,97,569**
Deferred Taxes	(41,792)	(43,581)	(43,581)	(43,581)	(43,581)
Long Term Provisions & Others	23,362	24,654	24,654	24,654	24,654
TOTAL SOURCES OF FUNDS	**4,76,156**	**5,20,063**	**5,37,791**	**5,33,931**	**5,34,151**
APPLICATION OF FUNDS					
Net Block	**29,253**	**26,660**	**26,406**	**25,317**	**24,081**
CWIP	**17,791**	**19,418**	**19,018**	**18,518**	**18,018**
Goodwill	**10,110**	**10,110**	**10,110**	**10,110**	**10,110**
Investment Property	**1,93,064**	**1,91,742**	**2,09,248**	**2,22,075**	**2,40,129**
Investments, LT Loans & Advances	**19,292**	**11,575**	**11,575**	**11,575**	**11,575**
Other Non Current Assets	**43,816**	**40,330**	**40,379**	**40,427**	**40,476**
Inventories	1,68,342	1,99,491	2,02,962	2,05,364	1,97,121
Debtors	34,169	36,416	38,587	41,715	44,068
Cash & Equivalents	33,813	40,992	38,362	22,584	17,639
ST Loans & Advances, Others	25,782	22,667	22,520	23,232	28,541
Total Current Assets	2,62,107	2,99,566	3,02,431	2,92,895	2,87,369
Creditors	15,142	17,175	18,034	18,935	19,882
Other Current Liabilities & Provns	84,135	62,163	63,342	68,051	77,725
Total Current Liabilities	99,277	79,338	81,376	86,986	97,607
Net Current Assets	**1,62,830**	**2,20,228**	**2,21,055**	**2,05,909**	**1,89,762**
Misc Expenses & Others	**-**	**-**	**-**	**-**	**-**
TOTAL APPLICATION OF FUNDS	**4,76,156**	**5,20,063**	**5,37,791**	**5,33,931**	**5,34,151**

Source: Company, HDFC sec Inst Research

Cash Flow: Consolidated

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
PBT before minority	12,229	6,003	4,043	5,997	8,828
Non-operating & EO items	(8,052)	(2,010)	(7,032)	(7,192)	(7,071)
Taxes	(6,484)	(3,278)	(890)	(1,319)	(1,942)
Interest expenses	26,798	29,798	31,584	32,167	31,584
Depreciation	7,659	5,725	5,754	6,589	6,737
Working Capital Change	(2,581)	(45,217)	(3,506)	(680)	11,153
OPERATING CASH FLOW (a)	**29,569**	**(8,979)**	**29,953**	**35,562**	**49,288**
Capex	(5,858)	(2,032)	(5,100)	(5,000)	(5,000)
Free cash flow (FCF)	23,711	(11,011)	24,853	30,562	44,288
Investments	(2,323)	10,748	(10,945)	(6,187)	(11,335)
INVESTING CASH FLOW (b)	**(8,180)**	**8,716**	**(16,045)**	**(11,187)**	**(16,335)**
Share capital Issuance	4	1	-	-	-
Debt Issuance	20,654	39,384	16,638	(5,546)	(5,546)
Interest expenses	(32,087)	(31,474)	(31,584)	(32,167)	(31,584)
Dividend	(7,856)	(39)	(1,593)	(2,440)	(769)
FINANCING CASH FLOW (c)	**(19,285)**	**7,871**	**(16,539)**	**(40,153)**	**(37,899)**
NET CASH FLOW (a+b+c)	**2,103**	**7,608**	**(2,630)**	**(15,778)**	**(4,945)**
Closing Cash & Equivalents	33,813	40,992	38,362	22,584	17,639

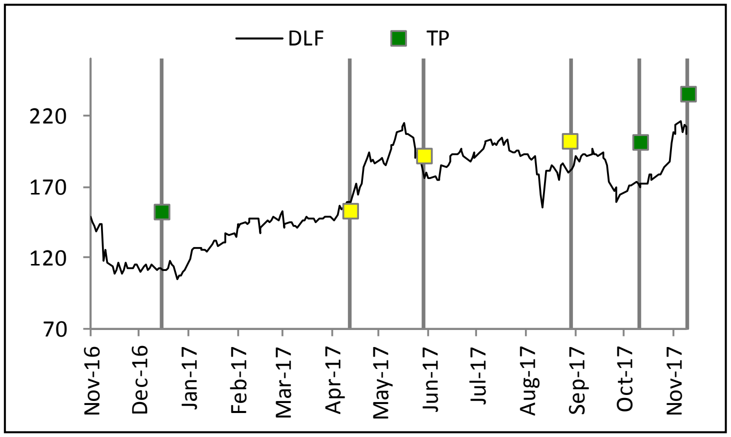
Source: Company, HDFC sec Inst Research

Key Ratios: Consolidated

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	54.1	57.8	63.0	62.6	63.0
EBITDA Margin	40.3	41.8	47.0	47.6	47.8
APAT Margin	1.4	6.1	3.6	5.1	7.7
RoE	1.2	3.0	1.1	1.6	2.6
Core RoCE	8.0	7.4	6.9	7.3	7.7
RoCE	8.0	7.4	6.9	7.3	7.7
EFFICIENCY					
Tax Rate (%)	55.0	22.3	22.0	22.0	22.0
Asset Turnover (x)	0.2	0.2	0.1	0.2	0.2
Inventory (days)	633	817	991	930	868
Debtors (days)	92	157	185	183	185
Payables (days)	28	72	87	84	84
Cash Conversion Cycle (days)	697	901	1,089	1,029	969
Debt/EBITDA (x)	6.3	8.5	8.9	8.0	7.4
Net D/E	0.9	1.0	1.1	1.1	1.1
Interest Coverage	1.5	1.2	1.1	1.2	1.3
PER SHARE DATA					
EPS (Rs/sh)	0.8	2.8	1.5	2.3	3.7
CEPS (Rs/sh)	5.1	6.0	4.7	6.0	7.4
DPS (Rs/sh)	4.4	0.0	1.0	1.0	1.0
BV (Rs/sh)	135.3	138.2	138.8	139.8	143.0
VALUATION					
P/E	269.3	73.6	140.0	90.7	56.9
P/BV	1.5	1.5	1.5	1.5	1.5
EV/EBITDA	14.7	18.1	18.4	17.1	16.1
OCF/EV (%)	0.1	(0.0)	0.0	0.1	0.1
FCF/EV (%)	4.0	(1.8)	3.9	4.7	6.8
FCFE/Market Cap (%)	3.3	(0.8)	2.7	(1.9)	1.9
Dividend Yield (%)	2.1	0.0	0.5	0.5	0.5

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
16-Dec-16	113	BUY	153
13-Apr-17	159	NEU	153
29-May-17	176	NEU	192
29-Aug-17	180	NEU	202
11-Oct-17	170	BUY	202
13-Nov-17	208	BUY	236

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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