

DLF

REAL ESTATE

BUY

Target Price: Rs 266

Ups cash infusion plan

DLF's board has approved fund infusion of ~Rs 150 bn in the company, higher than our expectation of Rs 100-120 bn via preferential issue (Rs 112.5 bn) to promoters and issue of ~Rs 37.5 bn (estimated based on CMP) to public investors. Promoters are infusing cash via allotment of CCDs (coupon of 0.01% p.a.) and warrants with an exercise price of Rs 217.25/ share.

Infusion of higher funds (Rs 112.5 bn) by promoters (vs. Rs 100 bn raised from GIC deal) into DLF is comforting, which will lead to near-zero debt levels in DevCo (vs. earlier expectation of ~Rs 30-50 bn debt). Its strategy of having completed inventory of Rs 150 bn by Mar'18 to result in DevCo yielding positive FCF from FY19. We believe this will allay cash flow pressure on its residential business and could advance its plans for newer launches. **BUY.**

CMP : Rs 226
Potential Upside : 17%

MARKET DATA

No. of Shares : 1,784 mn
Free Float : 25%
Market Cap : Rs 404 bn
52-week High / Low : Rs 237 / Rs 101
Avg. Daily vol. (6mth) : 11.3 mn shares
Bloomberg Code : DLFU IB Equity
Promoters Holding : 75%
FII / DII : 17% / 1%

Key highlights

- ◆ **Fund infusion of Rs 82.5 bn via issue of CCDs to promoters:** Approved issue of 379.7 mn Compulsorily Convertible Debentures (CCDs) to promoters for cash, carrying a coupon of 0.01% p.a. convertible into one or more tranches at an exercise price of Rs 217.25/ share
- ◆ **Fund infusion of Rs 30 bn via issue of warrants to promoters:** Approved issue of 138.1 mn warrants to promoters for cash, exercisable into one or more tranches at an exercise price of Rs 217.25/ share (25% of the amount is payable at the time of issue of warrants and balance at the time of issue of shares)
- ◆ **Public offering:** Issue of 173 mn equity shares via public issue/ private placement/ QIP, which could yield ~Rs 37.5 bn (estimated at CMP) to bring promoter's stake to permissible limit of ~75%
- ◆ Management has not disclosed the timeline for the equity issuance but we believe it would be closer Q4FY18/Q1FY19 (timeline for the closure of the GIC deal)
- ◆ Fund infusion of ~Rs 150 bn would make DevCo debt free and thus would allay the cash flow pressure on the residential business. **We believe this could advance company's plans for newer launches.** We thus adjust our monetization timelines for its forthcoming projects/ land bank

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Revenue (Rs mn)	99,256	82,212	85,127	89,324
Adj PAT (Rs mn)	3,062	7,148	7,509	12,103
EPS (Rs.)	1.3	3.1	3.3	4.9
Change YOY (%)	(54.5)	133.4	5.1	49.2
Net Debt (Rs mn)	235,117	255,408	162,283	101,102
Networth (Rs mn)	240,691	245,728	359,693	406,011
RoE (%)	1.2	2.9	2.5	3.2
RoCE (%)	7.2	6.6	6.5	6.7
P/E (x)	169.4	72.6	69.1	46.3
P/B (x)	2.2	2.1	1.4	1.4

Source: Company, Axis Capital

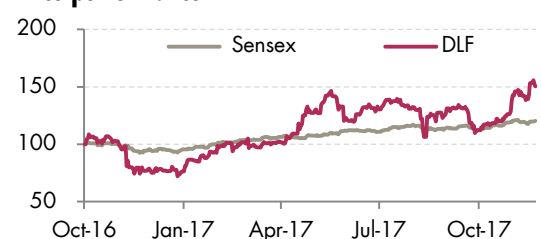
Note: DevCo – Development Company

Key drivers

	2Q'18	2Q'17	YoY	1Q'18	QoQ
Sales value (Rs bn)	(0.6)	3.1	NA	(1.3)	NA
Area leased (msf)	0.38	0.04	850%	0.20	90%
Net debt ^ (Rs bn)	268	231	16%	259	3%

^ as per IGAAP

Price performance



Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	99,256	82,212	85,127	89,324
Other operating income	-	-	-	-
Total operating income	99,256	82,212	85,127	89,324
Cost of goods sold	(45,579)	(34,658)	(35,739)	(37,489)
Gross profit	53,678	47,555	49,388	51,834
<i>Gross margin (%)</i>	<i>54.1</i>	<i>57.8</i>	<i>58.0</i>	<i>58.0</i>
Total operating expenses	(13,706)	(13,222)	(13,265)	(13,922)
EBITDA	39,972	34,333	36,123	37,913
<i>EBITDA margin (%)</i>	<i>40.3</i>	<i>41.8</i>	<i>42.4</i>	<i>42.4</i>
Depreciation	(7,659)	(5,725)	(6,244)	(6,494)
EBIT	32,313	28,608	29,879	31,419
Net interest	(26,798)	(29,798)	(25,577)	(18,132)
Other income	6,714	7,193	7,000	7,000
Profit before tax	10,263	10,295	11,302	20,287
Total taxation	(5,642)	(2,293)	(2,939)	(5,356)
<i>Tax rate (%)</i>	<i>55.0</i>	<i>22.3</i>	<i>26.0</i>	<i>26.4</i>
Profit after tax	4,620	8,003	8,364	14,931
Minorities	11	68	68	(1,906)
Profit/ Loss associate co(s)	(1,569)	(923)	(923)	(923)
Adjusted net profit	3,062	7,148	7,509	12,103
<i>Adj. PAT margin (%)</i>	<i>3.1</i>	<i>8.7</i>	<i>8.8</i>	<i>13.5</i>
Net non-recurring items	-	-	-	-
Reported net profit	3,062	7,148	7,509	12,103

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	3,567	3,568	4,581	4,950
Reserves & surplus	237,123	242,160	355,111	401,061
Net worth	240,691	245,728	359,693	406,011
Borrowing	268,930	296,400	203,276	142,095
Other non-current liabilities	14,803	16,094	16,094	16,094
Total liabilities	525,685	559,461	580,301	565,438
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	22,418	25,418
Total fixed assets	240,107	237,820	245,320	252,820
Total Investment	30,212	22,202	22,202	22,202
Inventory	168,342	199,491	219,440	208,468
Debtors	34,868	37,193	38,511	40,410
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	233,793	211,430
Other non-current assets	80,673	78,986	78,986	78,986
Total assets	525,685	559,461	580,301	565,438

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	10,263	10,295	11,302	20,287
Depreciation & Amortisation	7,659	5,725	6,244	6,494
<i>Chg in working capital</i>	<i>118,100</i>	<i>(38,581)</i>	<i>(13,340)</i>	<i>22,363</i>
Cash flow from operations	83,126	7,991	26,912	60,014
<i>Capital expenditure</i>	<i>(5,954)</i>	<i>(3,438)</i>	<i>(13,744)</i>	<i>(13,994)</i>
Cash flow from investing	(19,443)	3,650	(14,666)	(14,916)
<i>Equity raised/ (repaid)</i>	<i>(52,582)</i>	<i>1,321</i>	<i>110,060</i>	<i>40,025</i>
<i>Debt raised/ (repaid)</i>	<i>23,990</i>	<i>27,470</i>	<i>(93,124)</i>	<i>(61,181)</i>
<i>Dividend paid</i>	<i>(1,470)</i>	<i>(3,431)</i>	<i>(3,604)</i>	<i>(5,809)</i>
Cash flow from financing	(57,346)	(4,461)	(12,246)	(45,098)
Net chg in cash	6,337	7,179	-	-

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	1.3	3.1	3.3	4.9
CEPS (Rs)	4.7	5.6	6.0	7.5
DPS (Rs)	0.5	1.2	1.3	2.0
Dividend payout ratio (%)	40.0	40.0	40.0	40.0
GROWTH				
Net sales (%)	36.2	(17.2)	3.5	4.9
EBITDA (%)	32.2	(14.1)	5.2	5.0
Adj net profit (%)	(38.6)	133.4	5.1	61.2
FDEPS (%)	(54.5)	133.4	5.1	49.2
PERFORMANCE				
RoE (%)	1.2	2.9	2.5	3.2
RoCE (%)	7.2	6.6	6.5	6.7
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	2.0
Current ratio (x)				
	2.9	3.6	3.5	3.0
Interest cover (x)				
	1.2	1.0	1.2	1.7
VALUATION				
PE (x)	169.4	72.6	69.1	46.3
EV/ EBITDA (x)	18.9	22.5	18.8	17.4
EV/ Net sales (x)	7.6	9.4	8.0	7.4
PB (x)	2.2	2.1	1.4	1.4
Dividend yield (%)	0.2	0.6	0.6	0.9
Free cash flow yield (%)	14.9	0.9	2.5	8.2

Source: Company, Axis Capital

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

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