

# DLF

## Well placed to ride headwinds

DLF Ltd (DLF) reported better than expected Rev/EBIDTA/APAT 24/37/45% beat. One time DTA reversals on new ETR migration of Rs 19.2bn and exceptional impairment of certain Hotels/Clubs investment worth Rs 3.3bn led to reported loss of Rs 18.6bn. DLF Phase V saw buyers cancellation worth Rs 3.9bn, reporting negative sales of Rs 80mn, new buying of Rs 3.8bn is positive. Office rental collections remain robust at 90/80% for Apr/May-20 and may touch 90% for May-20 by first week of June-20. Malls are expected to open with strict social distancing norms by mid Jun-20. Balance sheet remains comfortable net D/E of 0.1x. We maintain BUY on DLF with SOTP of Rs 219/sh (vs. Rs 224/sh earlier).

- One offs led to reported loss:** Whilst adjusted 4QFY20 headline numbers were ahead of our expectations, one offs led to reported loss of Rs 18.6bn. On account of cash flow tax optimization, DLF has opted for new ETR from FY20, while not embracing the same for DCCDL business. This led to DTA tax write down of Rs 19.2bn. Residential pre-sales for FY20 stood at Rs 24.8bn below the Rs 27-28bn guidance on account of Mar-20 lockdown and Rs 9.6bn cancellation largely in Camellias projects. DLF believes cancellation is behind now with 75% of buyers carrying fit out in Camellia project.
- Ready inventory to see delayed monetization, new launches to remain on track:** In a tough environment DLF has unsold nearing completion inventory of Rs 91bn (vs. Rs 94bn QoQ). About ~53% high value inventory is in DLF Phase V (Rs 31,620/sqft) and hence it will be challenging to monetize the same. DLF remains committed to new launches of independent floors, total launches of 10mn sqft is being planned by FY21 end. Phase V next phase may get delayed due to existing high unsold inventory. DLF has changed its launch strategy and is now targeting launches, once basement is reached rather than earlier strategy of launches being more back ended.
- Rental business consolidation, calibrated build out now:** DLF is re-assessing capital deployment in Rental business. The focus is to complete Phase 1 of new developments of DLF Downtown Gurgaon and Chennai, 2mn sqft each. Hines JV is back on discussion board on way forward. We expect work from home to impact 10-15% office demand and hence most developers will scale down office build out in near term. DLF total FY20 Rental income stood at Rs 30bn with 30.3mn sqft operational portfolio with 95% occupancy. Net incremental leasing for FY20 stood at 1.3mn sqft.
- We maintain BUY** on DLF as its well placed to ride the COVID-19 headwinds. Balance sheet remains strong, new affordable launches may drive pre-sales and Cash flow may improve depending on Phase-V sales. **Key risks** (1) Further delays in monetization of luxury segment inventory (2) Inability to fully utilize mark-to-market potential from rental assets.

### Financial summary

YE Mar (Rs mn)	4Q FY20	4Q FY19	YoY (%)	3Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Net Sales	16,942	25,004	(32.2)	13,419	26.3	83,661	60,828	40,289	36,260
EBITDA	3,167	5,337	(40.7)	2,283	38.7	21,415	11,351	7,273	6,428
APAT	3,889	3,093	25.7	1,831	112.4	11,918	9,928	7,774	10,990
Diluted EPS (Rs)	1.6	1.2	25.7	0.7	112.4	4.8	4.0	3.1	4.4
P/E (x)						32.6	39.1	50.0	35.4
EV / EBITDA (x)						24.1	37.7	61.0	68.6
RoE (%)						3.5	2.9	2.2	3.1

Source: Company, HSIE Research

## BUY

CMP(as on 05 June 2020)	Rs 157
Target Price	Rs 219
NIFTY	10,142

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 224	Rs 219
EPS %	FY21E	FY22E
	-21.27	-13.36

### KEY STOCK DATA

Bloomberg code	DLFU IN
No. of Shares (mn)	2,475
MCap (Rs bn) / (\$ mn)	389/5,143
6m avg traded value (Rs mn)	1,843
52 Week high / low	Rs 267/115

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(22.4)	(28.9)	(19.6)
Relative (%)	(11.5)	(13.0)	(5.1)

### SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	74.95	74.95
FIs & Local MFs	1.67	1.76
FPIs	18.40	18.33
Public & Others	4.97	4.96
Pledged Shares	-	-

Source : BSE

**Parikshit D Kandpal, CFA**  
 parikshitd.kandpal@hdfcsec.com  
 +91-22-6171-7317

**Rohan Rustagi**  
 rohan.rustagi@hdfcsec.com  
 +91-22-6171-7355

Revenue: Rs 16.94bn (-32%/+26% YoY/QoQ, 24% beat)

EBITDA came in at Rs 3.2bn (-41%/+39% YoY/QoQ, 37% beat). EBITDA margins came in at 18.7% (-265/168bps YoY/QoQ). This Yoy dip in margins is largely on account of +218bps YoY increase in employee expenses. Improvement of 168bps QoQ driven largely by material & other expenses improving as % sales

Other income came in at Rs 1.8bn vs Rs 1.9bn QoQ in line. Associate profits came in at Rs 1.77bn vs Rs 2.43bn/1.86bn YoY/QoQ in line. Interest Cost came in at Rs 2.35bn (-56%/-1% YoY/QoQ) in line

DLF migrated to new ETR regime leading to DTA reversal of Rs 19.2bn which has been classified as exceptional by HSL. Reassessment of recoverability of certain investments and advances in the wake of COVID-19 has led to exceptional loss of further Rs 3.3bn

Consequently, RPAT: loss of Rs 18.6bn. Given overall exceptional items of Rs 23.5bn during 4QFY20, APAT stands at Rs 3.9bn (26%/112% YoY/QoQ, 45% beat)

#### Quarterly Financials Snapshot – Standalone

Particulars	4Q FY20	4Q FY19	YoY (%)	3QFY20	QoQ (%)	FY20	FY19	YoY (%)
Net Sales	16,942	25,004	(32.2)	13,419	26.3	60,828	83,661	(27.3)
Material Expenses	(9,580)	(15,545)	(38.4)	(7,680)	24.8	(33,803)	(49,511)	(31.7)
Employee Expenses	(1,059)	(1,018)	4.0	(868)	22.0	(3,567)	(3,517)	1.4
Other Operating Expenses	(3,136)	(3,104)	1.0	(2,588)	21.2	(12,106)	(9,218)	31.3
<b>EBITDA</b>	<b>3,167</b>	<b>5,337</b>	<b>(40.7)</b>	<b>2,283</b>	<b>38.7</b>	<b>11,351</b>	<b>21,415</b>	<b>(47.0)</b>
Interest Cost	(2,353)	(5,351)	(56.0)	(2,376)	(1.0)	(14,268)	(20,619)	(30.8)
Depreciation	(601)	(567)	5.9	(445)	34.9	(2,002)	(2,246)	(10.9)
Other Income	1,796	1,605	11.9	1,915	(6.2)	8,054	6,633	21.4
<b>PBT</b>	<b>2,010</b>	<b>1,024</b>	<b>96.3</b>	<b>1,377</b>	<b>46.0</b>	<b>3,134</b>	<b>5,183</b>	<b>(39.5)</b>
Tax	87	(378)	(122.9)	(1,412)	(106.1)	(2,167)	(2,774)	(21.9)
Minority Interest	24	18	31.1	9	159.3	65	51	26.9
Exceptional adjustments (Loss)/Gain	(22,467)	1,273	0.0	2,309	0.0	(15,757)	1,273	(1,337.8)
Share of associates	1,769	2,429	(27.2)	1,857	(4.7)	8,895	9,458	(6.0)
<b>RPAT</b>	<b>(18,578)</b>	<b>4,366</b>	<b>(525.5)</b>	<b>4,140</b>	<b>(548.7)</b>	<b>(5,829)</b>	<b>13,191</b>	<b>(144.2)</b>
Exceptional adjustments Loss/(Gain)	22,467	(1,273)	0.0	(2,309)	0.0	15,757	(1,273)	0.0
<b>APAT</b>	<b>3,889</b>	<b>3,093</b>	<b>25.7</b>	<b>1,831</b>	<b>112.4</b>	<b>9,928</b>	<b>11,918</b>	<b>(16.7)</b>

Source: Company, HSIE Research

#### Margin Analysis

MARGIN ANALYSIS	4Q FY20	4Q FY19	YoY (bps)	3Q FY20	QoQ (bps)	FY20	FY19	YoY (bps)
Material Expenses % Net Sales	56.5	62.2	(562.3)	57.2	(68.3)	55.6	59.2	(360.8)
Employee Expenses % Net Sales	6.2	4.1	217.6	6.5	(22.0)	5.9	4.2	166.1
Other Operating Expenses % Net Sales	18.5	12.4	609.7	19.3	(77.7)	19.9	11.0	888.4
EBITDA Margin (%)	18.7	21.3	(265.1)	17.0	168.0	18.7	25.6	(693.6)
Tax Rate (%)	(4.3)	36.9	(4,122.8)	102.5	(10,684.2)	69.1	53.5	1,559.5
APAT Margin (%)	23.0	12.4	1,058.6	13.6	931.2	16.3	14.2	207.5

Source: Company, HSIE Research

*Slight TP change largely on account of interest expense recalibration higher*

### Change in Estimates

Consolidated Rs Mn	FY21E			FY22E		
	Old	Revised	% Chg	Old	Revised	% Chg
Net Sales	40,289	40,289	0.00	36,260	36,260	0.00
EBITDA	7,273	7,273	-0.01	6,428	6,428	0.00
EBIDTA Margin (%)	18.1	18.1	-0.11	17.7	17.7	0.05
Adj PAT	9,874	7,774	-21.27	12,684	10,990	-13.36
AEPS (Rs)	4.2	3.1	-21.27	5.7	4.4	-13.36
<b>TP (Rs/share)</b>	<b>224</b>	<b>219</b>	<b>-1.96</b>			

Source: Company, HSIE Research

### Key Assumptions & Estimates

	Estimates		Growth (%)		Comments
	FY21E	FY22E	FY21E	FY22E	
<b>Volume assumptions</b>					
Residential (mn sqft)	1.00	1.20	(26.5)	20.0	We have built a -27/20% growth in FY21/22E
Average rate (Rs/sqft)	18,275	20,102	(10.0)	10.0	
Sales value (Rs mn)	18,275	21,929	(33.8)	20.0	
Rental Income					
Gross area for lease (mn sqft)	3.5	3.7	9.4	5.7	DCCDL rental assets are not considered here. The same will flow through profits from associates
Average occupancy %	92.0	94.0	(1.9)	2.2	
Leased space (mnsf)	3.2	3.5	7.3	8.0	
Average Rental (Rs/sqft/month)	55.6	55.6	-	-	
Rental income (Rs mn)	2,147	2,319	7.3	8.0	Considering the impact of transfer of assets against DCCDL dues (incl. DLF Mall, Saket)
<b>Earnings forecast</b>					
Residential Sales (Rs mn)	38,142	33,941	(35.2)	(11.0)	
Rental income (Rs mn)	2,147	2,319	7.3	8.0	DLF standalone rental income
<b>Total</b>	<b>40,289</b>	<b>36,260</b>	<b>(33.8)</b>	<b>(10.0)</b>	<b>Revenue recognition will be linked to handovers under IND AS 115</b>
EBIDTA (Rs mn)	7,273	6,428	(35.9)	(11.6)	
EBIDTA Margin (%)	18.1	17.7	(60.9)	(32.5)	
Net interest expense	12,184	10,369	(14.6)	(14.9)	Interest Expense to reduce from FY21E with settlement of DCCDL dues and DLF debt levels expected to come down with the company targeting working on monetization of commercial land parcels and land entitlements and transferring residual debt to LRD, further reducing interest rates
Associate Profits (Rs mn)	7,485	9,921	(15.8)	32.5	Majorly includes DLF's share of DCCDL profits
APAT (Rs mn)	7,774	10,990	(21.7)	41.4	
APAT Margin (%)	19.3	30.3	297.5	1,101.2	
EPS (Rs)	3.1	4.4	(21.7)	41.4	

Source: HSIE Research

We value the Residential real estate business at Rs 23/share. Commercial annuity assets stand at Rs 165/share, other business at Rs 8/share

The commercial portfolio factors in 3 under-construction assets of 7.1mn sqft forming part of the DCCDL portfolio where rent accrual is expected to commence during the period from FY21-22E

Land bank at Rs 87/share

Adding all these, we arrive at gross NAV of Rs 283/sh

We reduce net debt of Rs 64/share to arrive at NAV of Rs 219/share for DLF

DLF's net debt (ex. DCCDL) is Rs 52.67bn as at 4QFY20 vs Rs 48.6bn as on 3QFY20. This incremental borrowing was towards settlement of DCCDL dues and capex requirements

## Outlook and valuation

### Maintain BUY with NAV based TP of Rs 219/sh (vs Rs 224/sh earlier)

- We have adopted the DCF methodology to arrive at DLF's NAV/share. We value the Residential real estate business at Rs 23/share, Commercial annuity assets at Rs 165/share, Others - Hospitality and Project management at Rs 8/share, land bank at Rs 87/share and reduce net debt at Rs 64/share to arrive at NAV of Rs 283/share for the company.
- We factor in COVID-19 impact on real estate price cuts and expected delay in handover of units to customers to impact revenue recognition under CCM. However, DLF is well placed considering strong balance sheet, brand image and high-quality positioning, plans for repositioning of inventory for faster monetization as well as monetization of commercial land parcels. Slight TP change largely on account of Camellias cancellations pushing back earnings. We maintain BUY on DLF with a target price of Rs 219/share.

#### Sum Of The Parts

	Rs mn	Rs/share	Comments
Gross NAV Residential	57,695	23	NAV based on the methodology discussed
Gross NAV Commercial	4,08,507	165	NAV based on the methodology discussed
Other business	20,824	8	6-8x FY22E EV/EBIDTA
Land Bank	2,14,579	87	
<b>Total Gross NAV</b>	<b>7,01,604</b>	<b>283</b>	
Less: Net Debt	1,58,737	64	Net Debt, including DLF's share of DCCDL's debt
<b>NAV</b>	<b>5,42,867</b>	<b>219</b>	
NAV discount (%)		-	
<b>Final NAV</b>		<b>219</b>	

Source: Company, HDFC sec Inst Research

#### Debt position

Particulars (Rs Bn)	DLF Group (ex DCCDL)
Opening Debt as on Oct-19	71.23
Less: Repayments during 4QFY20	(4.49)
Add: New borrowings/ IND AS adjustments	10.99
Less: Cash in hand	(25.07)
<b>Net debt position</b>	<b>52.67</b>

Source: Company, HSIE Research

*We have used WACC assumption of 12% for valuing DLF's Residential business*

*In commercial office/retail space, we have discounted rentals using 12% WACC for the forecasted period and terminal value using the cap rate of 8%*

*We have valued services/maintenance and other business at 6-8x FY22E 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 12%. 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 12% WACC for the forecasted period and terminal value using the cap rate of 9%
- From the NAV, we have deducted the current net debt to arrive at the final valuation of the company.

## Base Case Assumptions

Discount rate	12%
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, HSIE 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)	176	198	219	240	260
Change in NAV (%)	-19.6	-9.8	-	9.5	18.8

Source: Company, HSIE 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)	194	206	219	233	246
Change in NAV (%)	-11.5	-6.1	-	6.2	12.3

Source: Company, HSIE 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)	238	229	219	209	198
Change in NAV (%)	8.9	4.5	-	-4.6	-9.4

Source: Company, HSIE 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 12%. For every 100bps increase in the discount rate, the NAV will fall by 3.7%.

#### NAV Sensitivity To Change In WACC

WACC rates (%)	10	11	12	13	14
NAV/share (Rs)	235	227	219	211	204
Change in NAV (%)	7.1	3.5	-	-3.7	-6.8

Source: Company, HSIE Research

# Financials

## Consolidated Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Net Sales</b>	<b>99,256</b>	<b>82,212</b>	<b>67,067</b>	<b>83,661</b>	<b>60,828</b>	<b>40,289</b>	<b>36,260</b>
<i>Growth (%)</i>	<i>29.8</i>	<i>(17.2)</i>	<i>(18.4)</i>	<i>24.7</i>	<i>(27.3)</i>	<i>(33.8)</i>	<i>(10.0)</i>
Material Expenses	45,579	34,658	31,153	49,511	33,803	22,159	18,855
Employee Expenses	3,152	3,283	3,436	3,517	3,567	3,605	3,725
Other Operating Expenses	10,553	9,938	8,704	9,218	12,106	7,252	7,252
<b>EBIDTA</b>	<b>39,972</b>	<b>34,333</b>	<b>23,774</b>	<b>21,415</b>	<b>11,351</b>	<b>7,273</b>	<b>6,428</b>
<i>EBIDTA (%)</i>	<i>40.3</i>	<i>41.8</i>	<i>35.4</i>	<i>25.6</i>	<i>18.7</i>	<i>18.1</i>	<i>17.7</i>
<i>EBIDTA Growth (%)</i>	<i>32.2</i>	<i>(14.1)</i>	<i>(30.8)</i>	<i>(9.9)</i>	<i>(47.0)</i>	<i>(35.9)</i>	<i>(11.6)</i>
Other Income	6,714	7,193	9,569	6,633	8,054	7,252	7,325
Depreciation	7,659	5,725	5,335	2,246	2,002	2,002	2,002
<b>EBIT</b>	<b>39,027</b>	<b>35,801</b>	<b>28,008</b>	<b>25,802</b>	<b>17,403</b>	<b>12,523</b>	<b>11,750</b>
Interest	26,798	29,798	29,507	20,619	14,268	12,184	10,369
Exceptional items	1,967	(4,293)	47,053	- 1,273	15,757	-	-
<b>PBT</b>	<b>10,263</b>	<b>10,295</b>	<b>45,554</b>	<b>6,456</b>	<b>(12,622)</b>	<b>339</b>	<b>1,381</b>
Tax	5,642	2,293	2,631	2,774	2,167	85	348
Minority Interest	(11)	(68)	129	51	65	35	35
Share of associates loss/(profit)	1,569	923	1,844	9,458	8,895	7,485	9,921
<b>RPAT</b>	<b>3,062</b>	<b>7,148</b>	<b>44,638</b>	<b>13,191</b>	<b>(5,829)</b>	<b>7,774</b>	<b>10,990</b>
EO items (net of tax)	1,688	2,120	(47,053)	(1,273)	15,757	0	0
<b>APAT</b>	<b>1,374</b>	<b>5,028</b>	<b>(2,415)</b>	<b>11,918</b>	<b>9,928</b>	<b>7,774</b>	<b>10,990</b>
<i>APAT Growth (%)</i>	<i>(75.7)</i>	<i>266.1</i>	<i>(148.0)</i>	<i>(593.4)</i>	<i>(24.7)</i>	<i>(21.7)</i>	<i>41.4</i>
<b>EPS</b>	<b>0.8</b>	<b>2.3</b>	<b>(1.1)</b>	<b>4.8</b>	<b>4.0</b>	<b>3.1</b>	<b>4.4</b>
<i>EPS Growth (%)</i>	<i>(75.7)</i>	<i>195.0</i>	<i>(148.0)</i>	<i>(593.4)</i>	<i>(32.9)</i>	<i>(21.7)</i>	<i>41.4</i>

## Consolidated Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>SOURCES OF FUNDS</b>							
<b>Share Capital</b>	<b>3,567</b>	<b>3,568</b>	<b>3,568</b>	<b>4,414</b>	<b>4,951</b>	<b>4,951</b>	<b>4,951</b>
Warrants	-	-	7,501	7,501	-	-	-
Reserves	2,37,123	2,42,160	3,42,035	3,23,850	3,39,517	3,46,470	3,56,726
<b>Total Shareholders Funds</b>	<b>2,40,691</b>	<b>2,45,728</b>	<b>3,53,104</b>	<b>3,35,765</b>	<b>3,44,467</b>	<b>3,51,421</b>	<b>3,61,677</b>
Minority Interest	1,261	1,239	488	406	184	149	114
Long Term Debt	2,03,285	2,32,554	62,389	56,144	38,901	37,901	36,901
Short Term Debt	26,936	34,080	88,080	91,637	24,394	24,394	24,394
Current Maturities	22,412	25,389	24,438	28,599	-	-	-
<b>Total Debt</b>	<b>2,52,633</b>	<b>2,92,023</b>	<b>1,74,907</b>	<b>1,76,380</b>	<b>63,295</b>	<b>62,295</b>	<b>61,295</b>
Deferred Taxes	(41,792)	(43,581)	4,385	(19,372)	2,465	2,465	2,465
Long Term Provisions & Others	23,362	24,653	14,621	13,981	15,538	17,092	18,801
<b>TOTAL SOURCES OF FUNDS</b>	<b>4,76,156</b>	<b>5,20,062</b>	<b>5,47,505</b>	<b>5,07,160</b>	<b>4,25,950</b>	<b>4,33,422</b>	<b>4,44,352</b>
<b>APPLICATION OF FUNDS</b>							
Net Block	29,253	24,377	17,124	16,167	16,471	19,469	22,467
CWIP	17,791	1,528	1,373	1,029	887	887	887
Goodwill	10,110	10,110	10,110	10,092	9,443	9,443	9,443
Investment Property	1,93,064	2,11,916	53,607	36,958	25,955	26,248	26,545
Investments	19,292	11,576	1,98,320	2,08,682	1,80,229	1,87,714	1,97,635
Other Non Current Assets	43,816	39,456	31,046	34,688	37,989	38,035	36,133
Inventories	1,68,342	2,00,988	1,97,529	2,20,086	2,24,862	2,20,365	2,22,569
Debtors	34,169	14,174	12,858	8,323	7,204	6,623	4,967
Cash & Equivalents	33,813	41,506	32,776	48,554	24,204	6,960	9,252
ST Loans & Advances, Others	25,782	40,333	51,386	59,105	31,659	31,658	28,201
<b>Total Current Assets</b>	<b>2,62,107</b>	<b>2,97,000</b>	<b>2,94,549</b>	<b>3,36,067</b>	<b>2,87,930</b>	<b>2,65,606</b>	<b>2,64,989</b>
<b>Creditors</b>	<b>15,142</b>	<b>14,073</b>	<b>12,175</b>	<b>12,771</b>	<b>10,562</b>	<b>11,619</b>	<b>12,781</b>
Other Current Liabilities & Provns	84,135	61,827	46,448	1,23,752	1,22,391	1,02,360	1,00,965
<b>Total Current Liabilities</b>	<b>99,277</b>	<b>75,900</b>	<b>58,623</b>	<b>1,36,523</b>	<b>1,32,953</b>	<b>1,13,979</b>	<b>1,13,746</b>
<b>Net Current Assets</b>	<b>1,62,830</b>	<b>2,21,100</b>	<b>2,35,926</b>	<b>1,99,545</b>	<b>1,54,977</b>	<b>1,51,628</b>	<b>1,51,244</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>4,76,156</b>	<b>5,20,062</b>	<b>5,47,505</b>	<b>5,07,161</b>	<b>4,25,950</b>	<b>4,33,422</b>	<b>4,44,352</b>

Source: Company, HSIE Research

### Consolidated Cash Flow

Y/E March (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT before minority	12,229	6,003	(1,499)	6,456	6,535	339	1,381
Non-operating & EO items	(8,052)	(2,010)	79,094	(6,307)	(8,182)	(7,252)	(7,325)
Taxes	(6,484)	(3,278)	(5,839)	(2,344)	(422)	(85)	(348)
Interest expenses	26,798	29,798	29,507	20,619	14,268	12,184	10,369
Depreciation	7,659	5,725	5,335	2,246	2,002	2,002	2,002
Working Capital Change	(2,581)	(45,217)	(34,152)	(241)	(8,807)	(12,457)	6,217
<b>OPERATING CASH FLOW ( a )</b>	<b>29,569</b>	<b>(8,979)</b>	<b>72,446</b>	<b>20,430</b>	<b>5,393</b>	<b>(5,269)</b>	<b>12,297</b>
Capex	(5,858)	(2,032)	(4,041)	(5,687)	(1,386)	(5,000)	(5,000)
Free cash flow (FCF)	23,711	(11,011)	68,405	14,743	4,007	(10,269)	7,297
Investments	(3,889)	8,785	(33,102)	4,274	45,586	(293)	(297)
Non operating Income	1,567	1,963	1,361	1,461	20,969	7,252	7,325
<b>INVESTING CASH FLOW ( b )</b>	<b>(8,180)</b>	<b>8,716</b>	<b>(35,782)</b>	<b>48</b>	<b>65,168</b>	<b>1,959</b>	<b>2,028</b>
Share capital Issuance	4	1	0	30,942	22,500	-	-
Issue of Warrants	-	-	7,501	-	-	-	-
Issue of CCDs	-	-	82,500	-	-	-	-
Debt Issuance	20,654	39,384	(1,17,114)	(3,693)	(85,515)	(1,000)	(1,000)
Interest expenses	(32,087)	(31,474)	(21,952)	(16,775)	(23,819)	(12,184)	(10,369)
Dividend and Other Misc	(7,856)	(39)	(8,163)	(1,696)	(8,077)	(921)	(1,359)
<b>FINANCING CASH FLOW ( c )</b>	<b>(19,285)</b>	<b>7,871</b>	<b>(57,228)</b>	<b>8,780</b>	<b>(94,911)</b>	<b>(14,105)</b>	<b>(12,728)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>2,103</b>	<b>7,608</b>	<b>(20,563)</b>	<b>29,258</b>	<b>(24,349)</b>	<b>(17,415)</b>	<b>1,597</b>
Non-operating and EO items							
Other bank deposits not part of C&CE	7,296	7,380	19,213	5,891		-	-
Closing Cash & Equivalents	33,813	41,506	32,776	48,554	24,204	6,960	9,252

Source: Company, HSIE Research

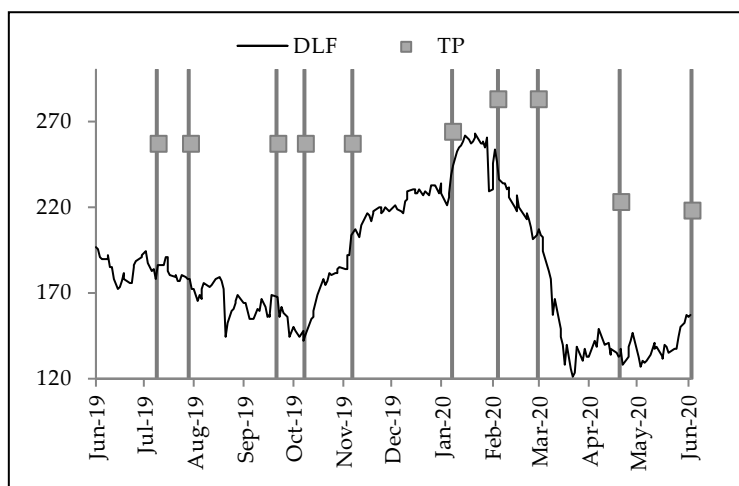
### Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>PROFITABILITY (%)</b>							
GPM	54.1	57.8	53.5	40.8	44.4	45.0	48.0
EBITDA Margin	40.3	41.8	35.4	25.6	18.7	18.1	17.7
APAT Margin	1.4	6.1	(3.6)	14.2	16.3	19.3	30.3
RoE	0.5	2.1	(0.8)	3.5	2.9	2.2	3.1
Core RoCE	8.0	7.4	6.5	8.0	6.4	5.1	4.8
RoCE	8.0	7.4	6.5	8.0	6.4	5.1	4.8
<b>EFFICIENCY</b>							
Tax Rate (%)	55.0	22.3	5.8	43.0	(17.2)	25.2	25.2
Asset Turnover (x)	0.2	0.2	0.2	0.3	0.2	0.2	0.1
Inventory (days)	633	820	1,084	911	1,335	2,017	2,229
Debtors (days)	92	107	74	46	47	63	58
Payables (days)	28	65	71	54	70	100	123
Cash Conversion Cycle (days)	697	862	1,087	903	1,312	1,979	2,165
Debt/EBITDA (x)	6.3	8.5	7.4	8.2	5.6	8.6	9.5
Net D/E	0.9	1.0	0.4	0.4	0.1	0.2	0.1
Interest Coverage	1.5	1.2	0.9	1.3	1.2	1.0	1.1
<b>PER SHARE DATA</b>							
EPS (Rs/sh)	0.6	2.0	1.0	4.8	4.0	3.1	4.4
CEPS (Rs/sh)	3.6	4.3	1.2	5.7	4.8	3.9	5.2
DPS (Rs/sh)	3.2	0.0	3.3	0.7	3.3	0.3	0.5
BV (Rs/sh)	97.2	99.3	142.7	135.6	139.2	142.0	146.1
<b>VALUATION</b>							
P/E	443.1	121.0	(252.0)	32.6	61.3	78.3	55.4
P/BV	2.5	2.5	1.7	1.2	1.8	1.7	1.7
EV/EBITDA	20.7	25.0	31.6	24.1	57.1	91.3	102.8
OCF/EV (%)	0.0	(0.0)	0.1	0.0	0.0	(0.0)	0.0
FCF/EV (%)	2.9	(1.3)	9.1	2.9	0.6	(1.5)	1.1
FCFE/Market Cap (%)	2.0	(0.5)	(11.6)	(1.5)	(17.3)	(3.9)	(0.7)
Dividend Yield (%)	1.3	0.0	1.3	0.4	1.3	0.1	0.2

Source: Company, HSIE Research



## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
11-Jul-19	186	BUY	258
1-Aug-19	178	BUY	258
22-Sep-19	168	BUY	258
10-Oct-19	142	BUY	258
11-Nov-19	203	BUY	258
9-Jan-20	228	BUY	265
7-Feb-20	246	BUY	284
2-Mar-20	202	BUY	284
22-Apr-20	133	BUY	224
7-Jun-20	157	BUY	219

From 2<sup>nd</sup> March 2020, we have moved to new rating system

## Rating Criteria

- BUY: >+15% return potential  
 ADD: +5% to +15% return potential  
 REDUCE: -10% to +5% return potential  
 SELL: >10% Downside return potential

**Disclosure:**

We, **Parikshit Kandpal, CFA& Rohan Rustagi, MBA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate 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. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

**Any holding in stock –No**

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

**Disclaimer:**

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from 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. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and 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 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.

HSL, 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.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

**HDFC securities****Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 [www.hdfcsec.com](http://www.hdfcsec.com)